103

WAYS OF INCREASING ACCESS OF LOW- AND MODERATE-INCOME AMERICANS TO FINANCIAL SERVICES

Y 4. B 22/1: 103-161

Ways of Increasing Access of Low-an...

HEARING

BEFORE THE

SUBCOMMITTEE ON
FINANCIAL INSTITUTIONS SUPERVISION,
REGULATION AND DEPOSIT INSURANCE

AND THE

SUBCOMMITTEE ON
CONSUMER CREDIT AND INSURANCE

OF THE

COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS
HOUSE OF REPRESENTATIVES

ONE HUNDRED THIRD CONGRESS

SECOND SESSION

AUGUST 11, 1994

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WAYS OF INCREASING ACCESS OF LOW- AND MODERATE-INCOME AMERICANS TO FINANCIAL SERVICES

THURSDAY, AUGUST 11, 1994

HOUSE OF REPRESENTATIVES, SUBCOMMITTEE ON FINANCIAL INSTITUTIONS SUPERVISION, REGULATION AND DEPOSIT INSURANCE; AND SUBCOMMITTEE ON CONSUMER CREDIT AND INSURANCE; COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS,

Washington, DC.

The joint subcommittee met, pursuant to call, at 10:05 a.m., in room 2128, Rayburn House Office Building, Hon. Stephen L. Neal [chairman of the subcommittee] presiding.

Present: Subcommittee on Financial Institutions Supervision, Regulation and Deposit Insurance; Chairman Neal, Representatives Mfume, Orton, Klein, Barrett, and Huffington.

Present: Subcommittee on Consumer Credit and Insurance; Chairman Kennedy, Representatives Roybal-Allard, Velazquez, Wynn, Fields, and McCandless.

Also present: Representative Roukema.

Chairman NEAL. I would like to call the subcommittee to order.

Good morning. I would like to welcome everyone to our hearing. I thank all of you for being with us today.

This morning's hearing is a joint effort between the Financial Institutions Subcommittee and the Consumer Credit Subcommittee.

I want to begin by thanking the very distinguished chairman of the Consumer Credit Subcommittee, Mr. Kennedy, for his continuing efforts on service accessibility issues, and on so many issues that improve the lives of our people. I thank him for cochairing this hearing with me.

I also commend several distinguished freshman members of the Banking Committee for their leadership on these issues. Mr. Fields, Ms. Roybal-Allard, and Mr. Wynn have worked hard to raise the level of concern about these issues. We all owe them a debt of gratitude for their fine efforts.

I am sorry to say that there are more than 30 million reasons for having this morning's hearing. That is the number of Americans who don't presently have an account at any bank, savings and loan, or credit union. For most of us who think of a bank account as one of life's necessities, 30 million is an astounding figure.

I am sure all of us can imagine how much more difficult life would be without a bank account. A person without a checking account can't sit at his or her desk at home and pay bills. Instead, one would have to trek to the Post Office or the 7-Eleven to buy

money orders or else pay cash for everything. A person without a bank account can't just stop by an ATM whenever he or she needs cash. Instead, a person must cash a check at a check casher or other location and make sure he leaves home in the morning with enough cash to pay for daily needs.

A person without a bank account doesn't have a safe place to store money. If one is robbed on the way home from cashing a paycheck or if the mattress where the money is stored catches fire, there is no Federal deposit insurance to protect the savings.

I don't come into this hearing with any preconceived ideas about what caused the problem, who is to blame, or what should be done to fix it. Today's witnesses represent a wide variety of viewpoints and ideas, and, hopefully, we will get to the bottom of this matter. I hope the hearing process will give us a better understanding and better ideas about how to make our insured depository system work better.

In the course of today's hearings, we will hear testimony about plans to deliver government benefits electronically. We will learn about one State's implementation of basic banking requirements at the State level. We will hear from the chairman of the low-income credit union which serves the Latino community here in Washington, DC, a community, I might add, which was hard hit a few years ago by the failure of a financial institution which many depositors assumed to be a bank but which wasn't. And we will get the perspective of a banker, a check casher and a consumer advocate with respect to these important accessibility issues.

All of this testimony is important because it will help us do our job better. Our job here is to improve the lives of Americans. Though it is sometimes not acknowledged, that is clearly why we are here, and that is clearly what we are all trying to do.

So I hope today's hearing adds momentum to efforts to improve financial service accessibility for low- and moderate-income people. If it does, then I think we will be doing our jobs for those 30 million Americans.

At this time I would like to recognize my friend, Mr. Kennedy, for any opening remarks he would like to make.

Chairman KENNEDY. Well, thank you very much, Chairman Neal. I appreciate the leadership that you have shown in your chairmanship of the Financial Institutions Subcommittee on this important subject, and all the work that you have done over the years to make certain that, as we provide banks more powers in this country and deal with the changing, competitive nature of financial institutions, that we also try our best to make certain that consumers aren't left with the short shrift of new powers.

The fact of the matter is that basic banking services are an essential part of American life that for all too many Americans simply don't exist.

I noticed in your testimony—your written testimony and oral testimony—you mentioned the number 30 million Americans. I was wondering where I got 42 million Americans, and I was just informed that the GAO claims there are 42 million Americans.

Whether it is 30 million or whether it is 42 million, the fact of the matter remains: There is a tremendous number of the people of this country that are never going to be able to participate in the

American dream, are never going to be able to own their own home. They are never going to be able to have their own small business. They are never going to be able to go out and participate in all of the promise of America, simply because they don't have access to financial institutions.

I attended a press conference recently in Boston that was highly critical of check-cashing services and the opening of a new check-cashing joint on Dorchester Avenue in a working class section of Boston. The fact is that you can't just criticize the check casher, because the check cashers play an important role when there are no banks that will provide check-cashing services to the poor.

If you work as a taxicab driver, if you work part time in a restaurant, you don't have enough money to open a bank account. Or the amount of fees that the banks charge you are so high that if you bounce a single check, as we saw from a little girl who was a Girl Scout the other day, that——

Could you keep your voice down? Thanks. It is hard to concentrate with two people talking.

In any event, the fact is, ladies and gentlemen, that if we are serious about allowing people to participate in the American dream, we have to provide them with basic banking services.

Now, just in the last month 130 banks in the Boston area have agreed to provide basic banking services. It can be a tremendous boon to the people in that part of our country.

When we talk about basic banking services, we are not asking banks to go out and lose money. What we are talking about is enabling people to participate with banks in a way that will allow them to get on track so that there aren't huge fees and huge penalties for mistakes that might be made, but that people begin to get the sense of how they can save some money, how they can begin to build on the building blocks that are necessary to participate in the American dream.

I very much want to urge the financial institutions of this country to voluntarily participate in the building of basic banking services. I hope that we can convince, as we have in Massachusetts, 130 separate financial institutions to participate in that kind of program. We can show that it works. If we do, no longer will a poor person be charged $7 to simply cash a government check. Those are the kinds of ripoffs that take place today. And those are the kinds of ripoffs that have no reality—have no sense in being the reality of what poor people face.

So I want to again thank Chairman Neal for his leadership on these issues. I want to thank him for showing his enlightened leadership today by holding this hearing. And I look forward to working with him and other members of the subcommittee toward making certain that basic banking services become a reality in America as we, as I say, continue to provide our banks with greater and greater powers so that they might deal with the competitive forces that are at work.

I just would like to submit the rest of my formal statement for the record, Mr. Chairman, and look forward to hearing from our witnesses this morning.

Chairman NEAL. All right. Thank you, sir. Without objection, so ordered.

[The prepared statement of Mr. Kennedy can be found in the appendix.]

Are there others that would like to make opening comments?

Mr. McCandless.

Mr. KLEIN. Very briefly, Mr. Chairman.

Mr. MCCANDLESS. Thank you, Mr. Chairman.

I am interested in getting on with the hearing. I would ask unanimous consent that my opening statement be made a part of the record.

Chairman NEAL. Without objection, so ordered.

Mr. Klein.

Mr. KLEIN. Mr. Chairman, I, too, would like to get on with the hearing, and I would like to submit an opening statement for the record. But I would like just a moment to make some very brief informal comments.

First, to thank you, Mr. Chairman, for your leadership in this very, very important area; and, second, to in an informal way welcome the Honorable Elizabeth Randall, who is the commissioner of the New Jersey Department of Banking. I say in an informal way, because I know my good friend, Mrs. Roukema, is going to formally introduce and present to the panel Ms. Randall, but I did want to express to Ms. Randall my personal welcome and also to make note of New Jersey's leadership in this area by being the first State to offer lifeline checking accounts.

And, having said that, Mr. Chairman, I think we would all be much more interested in hearing from the witnesses. So thank you very, very much.

Chairman NEAL. Thank you, sir, very much.

Any others that would like to make any opening comments?

Ms. VELAZQUEZ. Yes, Mr. Chairman, I would like to be heard for an opening statement.

Thank you, Mr. Chairman, and welcome to our witnesses. I am very, very pleased that this joint hearing has been convened because it will again focus attention on a critical problem in this country, the existence of a two-tiered financial services system. Middle and upper income communities have easy access to banks and banking services, while poor and working class, minority neighborhoods get too few banks and too many check-cashing outlets.

The causes and result of this two-tiered system are clear. Banks are either unjustifiably raising their fees for basic services or fleeing low- and moderate-income neighborhoods altogether. Check-cashing outlets move in to fill the gap. As a result, low- and moderate-income residents pay even higher fees for basic services like check cashing. They are also forced to operate on a cash-only basis, exposing themselves to undue risk of theft.

The extent of this problem is particularly apparent in my home city of New York, where commercial bank branches have shrunk citywide by over 7 percent since 1978. The flight is most pronounced in the less affluent boroughs.

In Brooklyn, where most of my constituents reside, bank branches have declined by more than 14 percent. The poorest areas of Brooklyn have lost almost half of their banks since 1978. Bank branches have dropped by almost 20 percent in the Bronx.

Where are these banks going? To the suburbs. Suburban bank branches in metropolitan New York grew by more than 10 percent during the same period. What banking services do remain are costing more. New York banks are charging high monthly fees and imposing high minimum balance requirements.

While banks are closing in New York, check cashers are growing. Check-cashing outlets have increased by over 50 percent in New York State since 1981. Nine out of ten of them are located in New York City, the vast majority in low-income neighborhoods.

Poor and working class residents in New York and around the country want and need affordable banking services just as much as anyone else. Although a few States have recently adopted basic banking requirements, millions of individuals and families still suffer the consequences of an inequitable financial services system. Progressive State initiatives are to be encouraged. However, this body, which has opened many doors for the banking industry and recently removed restrictions on interstate banking and branching, must step in and ensure that every resident in every neighborhood in this country has access to basic financial services.

Thank you, Mr. Chairman.

Chairman NEAL. Thank you, ma'am, very much.

[The prepared statements of Mr. Fields and Mr. Mfume can be found in the appendix.]

And at this time I would like to recognize our first witness, who is Mr. Gerald Murphy, the Fiscal Assistant Secretary, the U.S. Department of the Treasury.

Mr. Murphy, welcome. Thank you for being with us this morning. We will put your entire statement in the record, without objection, and ask that you summarize so that we will have a little more time for some questions and answers.

Mr. MURPHY. Fine.

Chairman NEAL. Mr. Murphy, these mikes don't work terribly well. If you will put it right in front of you so you can speak pretty much into it, it will work fine.

STATEMENT OF HON. GERALD MURPHY, FISCAL ASSISTANT SECRETARY OF THE TREASURY, DEPARTMENT OF THE TREASURY; ACCOMPANIED BY RUSSELL MORRIS, COMMISSIONER OF THE FINANCIAL MANAGEMENT SERVICE

Mr. MURPHY. Fine. Thank you, Chairman Neal and Chairman Kennedy, members of the subcommittees. I would like to thank you for inviting me today to testify on Electronic Benefit Transfer.

With me this morning is Russell Morris, the Commissioner of the Financial Management Service, who has also been very actively involved in the administration's effort to develop a nationwide Electronic Benefit Transfer system.

I am a career executive in Treasury, and my responsibilities are primarily for the financial operations, the government's internal financial systems. And during the present fiscal year, Treasury's Financial Management Service will process roughly 840 million payments and collect over $1 trillion in receipts.

We are concentrating on moving to an all-electronic Treasury, and we have some goals to increase the number of payments that are made electronically. We are particularly concerned that with

the number of unbanked recipients that we needed to develop a new device because we can't simply make direct deposits to their bank accounts. And, therefore, we have been involved in Electronic Benefits Transfer for quite some time now.

EBT will enable the government to electronically deliver a full array of benefits and payments to the unbanked, including Food Stamps, Aid to Families with Dependent Children, Supplemental Security Income, and other programs.

And, under EBT, paper checks will be replaced with plastic cards. Basically, unbanked recipients will be issued debit cards by the government. The debit cards will then be utilized to access automated teller machines, ATMs, to withdraw cash and also can be used at point-of-sale terminals for the purchase of food and other retail commodities.

Treasury has been a leader in moving toward electronic payments, and this year for the first time we are issuing over 50 percent of benefit payments electronically. As I said, most of those are going to bank accounts, however.

The long-term goal of creating an all-electronic Treasury has a target of 80 percent electronic payments by 1999. To reach that goal, we have to be able to develop an electronic system for the unbanked. Our estimates were somewhere in the neighborhood of 20 to 30 million Americans being unbanked; 10 million of those are receiving direct Federal benefits today.

Since the late 1980's, we have been testing EBT. Our first test was in Baltimore in 1989, and we currently have tests in Texas, specifically in the Houston and Dallas/Fort Worth metropolitan areas.

I think we have demonstrated that this system can provide a great deal more safety for the recipients, it is much more convenient for them, and we think we can also make it cost-effective for the government.

In addition, we believe in the government-wide use of EBT, not only for direct Federal benefits but for State-administered programs as well. We have been promoting pilots that the States have undertaken where they are delivering food stamps and AFDC and other State-administered programs. Some excellent work is being done in Reading, Pennsylvania; Bernalillo County, New Mexico; Ramsey County, Minnesota; Lynn County, Iowa; Dayton, Ohio; and Camden County, New Jersey. The entire State of Maryland has a food stamp EBT system. And these evaluations have shown that they can be delivered cost-effectively.

I think the main point is that the recipients in those areas, receiving benefits this way, they love the system. It works for them. The convenience is a great factor, the safety is a factor, and it enhances human dignity.

We also think that the system will help deter crime and fraud. It is a safer system than either cashing in a check or carrying food stamps around with you.

But the real opportunity here and the challenge in EBT is in combining both the Federal programs and the State programs into a single unified EBT payment process, and it has to be modeled closely after the commercial banking infrastructure that exists.

Vice President Gore's September 1993 report of the National Performance Review called for the rapid development of a nationwide, integrated system to deliver government benefits electronically.

An EBT Task Force was set up, comprised of Federal agencies with the greatest interest in EBT, and in May of this year the implementation plan for that system was approved. The concept is to have one card that is user-friendly and to have a unified electronic delivery method for all government, Federal and State benefits, in a partnership with the States.

When the plan is fully implemented and rolled out nationwide we would expect that benefits of $111 billion a year might flow through that system to some 31 million recipients.

The Treasury has been a member of that EBT Task Force. We have detailed staff to the project. We also have an in-house staff that is working to support the effort in developing the systems necessary.

Currently, one of the task force's highest priorities is to work with seven Southern States, known as the Southern Alliance of States, to develop the first joint venture partnership. The seven States are Alabama, Arkansas, Florida, Georgia, Missouri, North Carolina, and Tennessee. These States began working over a year ago and formally asked the Federal Government to work with them in developing the system, and they expect to have a pilot system running by early 1996.

The task force has also consulted, and continues to consult closely, with key nongovernment parties with a crucial interest—namely, retailers, financial institutions, recipient advocacy groups—because their input and the support of these stakeholders is critical for the success of the effort.

Retailer groups, for example, have expressed a willingness to invest in point-of-sale infrastructure if we can assure them that there is going to be a standard system that they can use.

The task force plan for a nationwide system is set forth in a report, and it includes these steps: One, to establish a partnership with States; two, to build the foundation to ensure consistency among States and with the commercial infrastructure; three, to implement EBT both in a joint-venture partnership with States but also to have State-initiated projects go on simultaneously; four, to expand EBT to include additional benefit programs; and, five, to enhance the system in an evolutionary way by picking up on new technologies such as smart cards at a later point.

The goal for nationwide rollout is 1999.

We at Treasury—and I think I can speak for every member of the EBT Task Force—are very excited about the prospects for EBT. We truly think that it is a win/win situation. Recipients get greater safety and convenience, an enhanced sense of dignity; Federal and State governments have a way to improve service to their customers at reduced cost; the private sector is going to save money compared to the cost of processing paper food coupons and paper checks. So there are benefits for all in this process.

There are still numerous issues that have to be addressed and dealt with, but EBT can certainly reflect government at its best, working better and costing less.

Thank you again, Mr. Chairman, for this opportunity and I would be pleased to respond to questions.

[The prepared statement of Mr. Murphy can be found in the appendix.]

Chairman NEAL. Yes. Thank you.

I am really delighted that you all are making this effort. EBT is a way, as you say in your testimony, to make the system work much more efficiently and effectively and help enhance the dignity of people involved in that system.

It benefits every aspect of the whole system, it seems to me, including the commercial side of it. It is safer for people, it is more convenient for people, and, in fact, it looks to me that if this is done right, this alone would increase dramatically the number of people who could have bank accounts, which is a major concern expressed here by a number of our members.

Because if we could start depositing all the kinds of checks you are talking about—Social Security, veterans benefits, food stamps, the AFDC, and other sorts of payments—a lot of those beneficiaries don't have bank accounts. So if those payments go directly into a bank account, beneficiaries would get their money somewhere accessible to them, safely, quickly, with less cost to the government, and so on. So, I just think the efforts you're making are great.

There is a question that has been raised by our State comptroller, and it has to do with this regulation E, which, as I understand it, would have the States become responsible for all losses over $50 that occur as a result of abuse of the EBT system. And our State comptroller points out that that could amount to an unfunded mandate for North Carolina alone of $1 billion a year. Actually, I think he says for food stamps alone.

Now, this is a little off the point that you are talking about, but this is something that needs to be addressed. I mean, if regulation E has this kind of impact on our State, obviously, it would all around the country. I am just wondering if you have thought this through yet and if you know how to resolve this problem.

Mr. MURPHY. I don't have the solution for you today, Mr. Chairman, but we are certainly aware of the issue, and it is being addressed.

Simply stated, the States are concerned about an unknown liability, an undetermined liability that might be incurred under reg E, which was applied to Electronic Benefits Transfer in a Federal Reserve Board decision last February. The Fed board did realize that this is a very complex issue, and they delayed the implementation of that regulation for 3 years.

During that period, we will be researching and attempting to assess the potential additional cost. The States will be working on it and the Department of Agriculture is going to be testing to try and determine just what those liabilities would be.

The—

Chairman NEAL. Someone has got to pay the cost. I mean, there is going to be abuse, we know, and we do everything we can to minimize the abuse. I know you are working on that, and that is critically important. But there is going to be some abuse. And I guess, ultimately, the question is, who is going to pay for it?

Mr. MURPHY. Yes. The administration is very concerned about consumer protections, and that is a priority.

In addition, the administration is also concerned, however, about the potential for abuse and what cost that will be. Because to make this cost-effective we have to minimize costs wherever we can.

Chairman NEAL. Not only that, but you just can't dump it on the States. You can't—I mean, North Carolina can't pick up a tab of 1 billion bucks for food stamp fraud. I am not sure about that number, whether it is right or not. But, anyway, we are talking about significant amounts of money here.

Well, you are aware of the problem much more than I am, so I appreciate it, and maybe you will let us know as soon as you come up with something.

Mr. MURPHY. We certainly will keep the subcommittee informed.

The estimates that we have heard on the potential cost nationwide range from about $120 million to about $900 million. So that is sort of the potential range, but we don't really know what the number is yet.

Chairman NEAL. OK. Thank you.

Mr. McCandless.

Mr. MCCANDLESS. Thank you, Mr. Chairman.

Mr. Murphy, if I understood your statement correctly, you were talking about an implementation date of 1999?

Mr. MURPHY. Our goal for a nationwide system is 1999.

Mr. MCCANDLESS. Right. That leads into the question then, how do you plan to lead up to 1999?

Mr. MURPHY. Yes, sir. As I mentioned, we already have some pilots in operation today. There are a number of States and counties that have pilots. The Treasury has a pilot.

Mr. MCCANDLESS. You talked about Maryland and so on and so forth, but those are State programs, not Federal programs.

Mr. MURPHY. Well, some of them are State-administered programs like the Food Stamp Program.

Mr. MCCANDLESS. Let me clear up with you where I am coming from. I am not unique in this comment. I have two district offices, and the major workload of both of those district offices is to straighten out problems between constituents and governmental agencies, bureaus, and departments over which, in 90 percent of the time, they had no control and there was nothing wrong.

But it is the system of communicating, the system of putting into the records the proper information at the Federal level and so on and so forth. So when we talk about a nationwide program to distribute through the electronic process certain types of benefits, I relate to the workload of my staff in the areas of currently—let's pick a few: Veterans' Affairs, Social Security, Medicare. You can go on and on and on.

And so I have a vision of that kind of thing all of a sudden being added to the workload of district offices because of the procedures that would naturally take place in the transcribing of information into electronic data. In your task force, have you talked with some of the other agencies that have been doing electronic data information to find out where the glitches are and how you might be able to avoid that to the maximum degree possible?

Mr. MURPHY. Yes. I believe there has been great coordination among agencies, and a lot of these problems have been discussed. There is a plan for implementation, which we would be happy to share with you, which indicates how we would go about phasing in the new system. And any information we can provide you on that I would be more than happy to share with you.

Mr. MCCANDLESS. One other question, if I may, Mr. Chairman. The chairman touched on this, but I would like to amplify it, and that is the loss of a card for purposes of the distribution of food stamps, AFDC benefits, or whatever example we might wish to use, and the utilization of that card by another party and the reporting of the card being stolen by the party that it was issued to and then the party that picked it up or in some other way acquired it, emptied out the benefits. How do you plan to approach something like this?

Mr. MURPHY. Under the present paper system, if I am walking down the street with food stamps in my pocket and they fall out and I lose them, basically, I have lost value just as if it were currency.

Under the EBT pilots, if a person loses a card and someone else finds it, it really won't be of value to them unless they have a PIN number and can use it, but that does happen. When it happens, the person, the recipient reports the loss of the card, and under the current pilots, any unauthorized withdrawals that are made prior to the call, the recipient is responsible for. Any—once he places the call and reports it lost, then that card can be deactivated and people cannot access the account.

So we feel that there are better protections in the card system as it exists today than with the paper coupons, but in addition to that, the Federal Reserve Board's decision to apply reg E effective 3 years from now would provide even greater protections and would limit the recipient's liability for any authorized withdrawals prior to reporting the loss to $50, and that is the liability that Chairman Neal referred to that would fall back to the government to pick up any of those losses from fraudulent use of the card.

Mr. MCCANDLESS. In the implementation of these programs, would they be actually operated by the agency in question, for example, Health and Human Services, other agencies; or would there be a central agency that would handle the entire program?

Mr. MURPHY. The system is not in place yet, so I can't be too definitive. We are requesting invitations from the private sector to make recommendations on how best to set up this nationwide structure. But, basically, all agencies will continue to be involved in the process. We will be using, you know, a network to actually process the electronic transfer of funds. But HHS and Agriculture will still be administrating the programs and authorizing the amounts of benefits for each individual.

Mr. MCCANDLESS. Thank you.

Thank you, Mr. Chairman.

Chairman NEAL. Thank you.

At this time I want to recognize my colleague, Mr. Kennedy. I want to again point out that this is a joint hearing between Mr. Kennedy's subcommittee and my own, and I am just—I am in this

chair instead of Mr. Kennedy just because I have been around a little bit longer. But it is a completely joint hearing.

So, Mr. Kennedy, I would like to recognize you.

Chairman KENNEDY. Well, I am glad you explained that out there, Steve. I am sure everybody was really concerned about that.

But in any event, I want to thank the witnesses for coming forward this morning. I thought we were going to be talking about—specifically about basic banking services, but I have a feeling that maybe we should just address a couple of concerns that I have had over a period of time here with the whole—like the EBT transactions in general. There are a number of issues that I think need to be raised.

First of all, you know, I had objected quite strongly to the limitation—to the exemption of the limitation on $50 for poor people that would be associated with the transfers that would be sort of giving the Treasury imprimaturs that are not covered in the same way by private transactions.

As I am sure you are aware, if these are private electronic benefits transfers, there is an agreement that if there is a lost or stolen card—raising Mr. Neal's issue—that the same way you might lose your American Express card or something like that, there is a very defined limit in terms of how much money you are going to be exposed for. So if somebody steals your EBT card privately, you have a $50 limitation. But if they steal your public EBT card, for the next 3 years, you are exposed completely to the abuse level that that individual who swipes your card might be able to run up. Isn't that correct?

Mr. MURPHY. You are only exposed to any unauthorized withdrawals prior to reporting the loss. Once the loss is reported, we can cut that off so that card can no longer be used.

Chairman KENNEDY. Even if that occurs—that is not my understanding, Mr. Murphy.

Let me just check with my staff for a second.

I am being told that if in fact the fellow who swipes your card steals all of your money in the first couple of transactions, or even in the first transaction, then you can be liable to a complete loss of all of the funds that are——

Mr. MURPHY. Of that month's benefits, yes.

Chairman KENNEDY. Yes. But in the private sector, you would be limited to a $50 loss; is that not correct?

Mr. MURPHY. That is correct.

Chairman KENNEDY. So, in fact, despite—this is what Roger Altman got into trouble for, Mr. Murphy.

In other words, if what you are—but the fact is that what we are saying is that—you are saying that the truth is that you would not be at loss once you report the transaction, but the reality is that you could very easily be at loss of all of the funds in your account prior to the reported loss of the stolen card, which is unlike the same transaction that would occur in the private sector; is that not true?

Mr. MURPHY. Yes. The amount that is in the account, however, is likely to be, you know, the current month's benefits. It is a little different than a credit card with a $10,000 authorization on it

where someone can go out and buy large items with your credit card. But I don't want to minimize the problem in any way.

Let me mention, though, that in the pilots in Texas that we are running for direct Federal benefits, like Social Security and OPM retirement, reg E applies there. And as I mentioned, the Fed board has decided to apply reg E to all electronic benefit programs 3 years from now. It is a complicated——

Chairman KENNEDY. Just to make it a little bit more simple, if you—if you get your whole Social Security check, I mean, couldn't you theoretically have well in excess of $1,000 in your account because of this EBT?

Mr. MURPHY. Could be, yes.

Chairman KENNEDY. I mean, that wouldn't be unheard of by any stretch of the imagination, would it?

Mr. MURPHY. I think it would normally be less, but whatever the amount it could be an important amount to the individual.

Chairman KENNEDY. That is all I am saying, all I am trying to point out.

I will yield to the chairman.

Chairman NEAL. I am not sure I understand this right either. Under reg E, would the loss be limited to $50 under the example Mr. Kennedy uses?

Mr. MURPHY. Under the requirements that if a person reports the loss promptly, the liability would be limited to $50 for any unauthorized withdrawals prior to reporting the loss.

Chairman NEAL. So the first question is, who would bear the loss?

Mr. Kennedy's point, then, is that the Social Security recipient, for example, would only experience a $50 loss if he or she had reported the lost card. Then there is a question, that if there is a loss, then who is going to pick up the rest of that loss? And under reg E, it would be left to the States. Under a private credit card, it is the issuer of the credit card, because the credit card issuer then has a way of recovering. They raise the rates for all credit card customers to pick up that extra money. Under a benefits program, the State, if reg E would stay like it is, then the State would have to make up these differences, which would mean the State would have to raise taxes or do something else to raise revenue.

Do I understand it right? That is really what I am asking.

Mr. MURPHY. The government would have to pay for the loss above the $50.

Chairman NEAL. The government, though, under this proposal is the State government, as I understand it.

Mr. MURPHY. Well, I believe it would be both the Federal and State governments, but the States apparently could bear the biggest burden on this, because there are some statutory restrictions, I understand, on, for example, the AFDC Program where under the law they are not permitted to replace cash benefits lost. So the States feel that the burden would then fall on them.

On the Food Stamp Program, there is a statutory restriction on the Food and Nutrition Service which says that they cannot spend more money on this EBT Program than they do for the existing Paper Coupon Program. So there are some limitations that have been placed on Federal agencies——

Chairman NEAL. Anyway, this has to be worked out. I am sorry, Mr. Kennedy. I stole some of your time here.

Chairman KENNEDY. That is all right.

Could I ask unanimous consent for an additional minute?

Chairman NEAL. Absolutely. Without objection, so ordered.

Chairman KENNEDY. Thank you very much.

I think that the chairman has focused on the issue of who pays for the loss, and I would just like to point out that I believe in private credit card companies, they actually hire insurance companies that pay for the losses in those circumstances.

Now, I don't know whether that has been looked into, and maybe there are some transfer issues that might exist if we tried to get private insurers to provide that kind of insurance to the States if there were losses that might occur, but that is something that might be looked into.

But I want to make certain that we do understand the difference that occurs here. And that is that if you lose that card—let's say you are a senior citizen and you lose that card, or if the card gets stolen from you, and you have just had your deposit of your Social Security check that goes into the account, you lose your full $1,000 benefit. I mean, if you assume that most people get about $12,000 a year under Social Security, you would lose that entire—no.

You are saying no. I would be happy to yield to the gentleman.

Mr. MCCANDLESS. The Social Security is deposited in the account and the account is drafted with checks.

Chairman KENNEDY. Yes, but the way this thing is going to work, as I understand it, is that the—this is all going to be done electronically so you are going to be able to have this card that then can go in and withdraw the amount that was deposited in the check, and you will not be able to have recourse for the $1,000 loss which you as an individual incurred, correct? Isn't that right, Mr. Murphy?

Mr. MURPHY. Yes. The way that it will work for the unbanked under the EBT, there will be an authorized amount that, you know, is available to the person to access with the card, and one person may go in and access the entire amount at one time, or they may make several withdrawals.

Chairman KENNEDY. And all I am trying to point out is—you know, we had hearings in the old Aging Committee about the kind of theft that occurs for senior citizens at the time when they receive their Social Security checks; and in fact, there is a whole group of people out there—criminals out there that target Social Security recipients at the period of time when they receive their checks.

So all I am pointing out to you is that this program, I think, has a big hole in it, and the hole is that there can be seniors that get targeted for a theft. And it is just a card; you can go in and plug that card into any ATM machine and get the withdrawal.

So it doesn't—it isn't the same—we just passed a law yesterday in the House—I will yield right to you, Al, but we just passed a law yesterday in the House saying that we should have all our laws the same as private sector laws. But here we are passing a benefit—a supposed benefit on to a whole class of poor people that

don't get the same level of protection that everybody in the private sector gets.

And so I just think that there is a big inconsistency in how this program has been designed that really needs to be changed if we are going to be fair to people that are going to be vulnerable to this kind of theft. It is that simple a point.

Mr. McCANDLESS. Mr. Chairman, I think there is a basic thing that we need to clear up here, with your permission, and I think we can do it with one question. Let's take the AFDC check in this electronic transfer.

If I understand what you have said now, if that check is, for purposes of our discussion, $400, it is possible to have a multiple number of withdrawals, depending upon where I go and present this document, this card. And so the Federal Government is actually acting as a personal checking account until such time as the $400 in question has been depleted; is that—is my understanding correct?

Mr. MURPHY. It is correct that the person doesn't have to withdraw the entire amount in one withdrawal. They can go back several times and withdraw it——

Mr. McCANDLESS. So it actually makes—it is like a checking account. You take what you need at the time.

Mr. MURPHY. You get what you need at the time. However, you can't write checks on it.

Mr. McCANDLESS. I present myself at the local grocery store, and I have a food stamp card, and obviously, I don't buy all of my foodstuffs in one trip. So now I could make as many trips as I needed to and make as many withdrawals as I wanted to, as long as I didn't exceed what I had in the way of a credit on the food stamp account; is that correct?

Mr. MURPHY. Yes.

Mr. McCANDLESS. Well, I think it is self-evident here that this becomes a rather Herculean-type activity, because based upon the number of withdrawals that could take place and the number of people who are benefiting, that would mushroom beyond what I would consider to be, at this point in the game, an acceptable governmental program. We are acting as a banking agency through the electronic process for people who are eligible for these benefits.

Mr. MURPHY. I don't think we viewed it quite that way. We are trying to improve the service that is presently provided and provide a more safe and convenient program. Most people are going to withdraw, you know, most of those monthly benefits pretty quickly. We wanted to give them an option so that they didn't have to walk around the street with the entire amount of cash in their pocket. And we wanted to give them the opportunity to manage those funds a little bit during the month.

You know, we view that as a benefit to the program.

Now, in terms of, you know, costing this out—eventually, we would offer a basic service of, you know, some limited number—this hasn't been decided yet. But, you know, a person could make one or two withdrawals perhaps for free. If they want to make a dozen, we might have to impose a nominal charge for additional transactions.

Chairman NEAL. Isn't it also envisioned that this could be done through private bank accounts? As we begin to transfer money electronically directly to a bank account—instead of issuing a veteran's check, Social Security check, AFDC check, whatever—people could write checks on it, use an ATM card against it or whatever?

Mr. MURPHY. There will be funds transferred to the bank to cover, you know, any withdrawals that are made. There won't be, I believe, an individual recipient bank account like a checking account.

Chairman NEAL. Why not?

Mr. MURPHY. I think it will be a pooled account. Again——

Chairman NEAL. Everyone has to have their own individual account. I am sorry. I am running over my time here, but I will come back to this in just a minute when I get more time. I am going to have to go to other members now.

Ms. Velazquez.

Ms. VELAZQUEZ. Thank you, Mr. Chairman.

Mr. Murphy, I would like to know how quickly States will come on line with the EBT system?

Mr. MURPHY. How would it be——

Ms. VELAZQUEZ. How quickly will they come on-line with the EBT system?

Mr. MURPHY. As I mentioned, we have got a number of pilots now. There are a number of States who are in the process of setting up systems, so it is going to be phased in. The Southern Alliance should have something operational in early 1996.

There are still a lot of issues and, you know, systems building to be done. So it can't be done overnight, but it will be phased in.

Ms. VELAZQUEZ. What specific obstacles are preventing them from adopting an EBT system?

Mr. MURPHY. There are a couple of challenges. To make this cost effective, we have to be able to reach a consensus with States and all the Federal programs to have a uniform system that everyone can use. It also will have to be pretty consistent with the commercial infrastructure that exists today to make it cost effective, and so we can move fairly rapidly to implement a system. So that is one set of considerations.

A second set of considerations is the cost and the financing of such a system; and there, there needs to be an equitable sharing of the cost among all of the stakeholders who stand to benefit from the system. And so that all has to be worked out as well.

The Federal Government, we estimate, will be spending $83 million over the next 4 years to help build a system. The States will be sharing in the cost of building the system. The retailers will be purchasing POS terminals to accommodate the system. Banks will be providing ATMs and networks, and they will benefit from the system. So there are a number of challenges yet facing us.

Ms. VELAZQUEZ. Thank you, Mr. Chairman.

Chairman NEAL. Yes, ma'am. Thank you.

Mr. Wynn.

Mr. WYNN. Thank you, Mr. Chairman.

Mr. Murphy, I appreciate your testimony this morning.

We have had a pilot program using electronic benefits transferring in Maryland since 1989, and for the most part, it has seemed

to work. One of the things that we did was implement client training sessions so that the persons who would be using the system could gain familiarity with it, and that the people who are serving this population could also gain experience.

Is this contemplated by the Federal Government, and if so, would it be done at the State level or how exactly would any kind of training or preparation of the client population be done?

Mr. MURPHY. Excellent point. We do have to provide training for this system, and that will be done. The task force working with States will ensure that adequate training is provided. One of the concerns is about the cost of losses. We have to educate people, you know, not to write their PIN number on the card, because then if it is lost, it can be used to withdraw those benefits. And the unbanked haven't had that much experience in dealing with banks. This is going to make them much more familiar with the process.

Mr. WYNN. I guess in a similar vein, a large part of the population we are going to be dealing with is the senior population, and they have gotten accustomed to one system. What steps would you take to convince the senior population that this system works equally well, and I guess also deals—let's say it follows up with kind of a training session. It is both an education and a training need, it seems to me.

Mr. MURPHY. Right, yes. We have, you know, had a growing increase in the number of Social Security recipients who are signing up for direct deposit to receive their monthly benefits directly to their bank account. We also have found that Social Security recipients are very interested and look very favorably upon the EBT in the pilots. It does require some adjustment.

It took me many years to get my mother to have her Social Security payment sent to the bank. But people who have used it like it, and they share that with others, and we think that they will find this much more convenient and much more secure.

Mr. WYNN. One last question. Do you believe that this system would be best set up at the State level as opposed to the Federal Government?

Mr. MURPHY. I think it has got to be a partnership. To make it cost effective, we can't really afford to go it alone. To get the economies of scale from a high volume, it makes sense for the Federal and the States to enter into partnerships. And that doesn't mean that, you know, States can't initiate programs on their own, and they are doing that; but we are going to try to build a basic foundation, an infrastructure that we can all use so that we have a standard, uniform system that is cost effective.

Mr. WYNN. Thank you, Mr. Murphy.

Thank you, Mr. Chairman.

Chairman NEAL. Thank you, sir.

Mr. Fields.

Mr. FIELDS. Thank you, Mr. Chairman.

Mr. Murphy, I want to talk a little bit about the Food Stamp Program and how do you anticipate it working. First of all, how would one go about accessing their food stamp benefits through the card? Would they go to any merchant, a specified number of merchants?

Mr. MURPHY. There will be—the Food Stamp Program, the way the pilots are working now, and you may also want to talk to later witnesses who have much more experience than I do on the Maryland pilot, but they, basically, go to a retailer and use a point-of-sale terminal. And their card, you know, has authorized limits, and they can use that card in lieu of food stamps.

Mr. FIELDS. OK. But let me see if I can get a little bit more precise. If I receive $400 of food stamps a month, I receive this card, this electronic card that I can use. I mean, will I be able to—like today, I can go to—one can go to any vendor food store in the State of Louisiana for the most part, most of them take food stamps. Will food stamp recipients now be limited in terms of the markets that they can go to? Because I assume that the vendors are going to have to put in some type of electronic device or be able to network with the system in order to determine whether or not this person has money within their Food Stamp Program.

Mr. MURPHY. The retailers also like the system because it eliminates their need to have to handle all of these paper coupons.

Mr. FIELDS. Well, I understand that, but what about a 7-Eleven, sir. I mean, I understand the vendor, if the national food store changes, would probably enjoy, but what about the mom and pop grocery store? Are we limiting their ability to be able to participate in this program, and if not, how are we not?

Mr. MURPHY. Well, the task force, you know, would do whatever it could to promote the use of terminals in a wide array of stores. There have been a few examples, I think, in some of the pilot efforts where the Federal Government even picked up the tab for some point-of-sale terminals to make sure that they were available so people could access their benefits.

Mr. FIELDS. Realizing that the program is not in a stage that you can answer a whole bunch of questions, let me just make a suggestion that we do whatever is necessary to make sure that we don't lock out the mom and pop grocery stores, out of the food stamp business. Because if we are going to require these vendors and these retailers to have some type of device within their stores, electronic device so that they can determine whether or not a person has money within their, you know, account, that may lock some of them out. So I would hope that you take that into consideration in your deliberations.

The second point I would like to make, I am reading in your testimony the ATM machines. I mean, how would ATM have anything to do with food stamp recipients? That is not related, is it?

Mr. MURPHY. That is correct. The ATMs would be used for the direct Federal benefit programs, essentially, those where you are getting cash.

Mr. FIELDS. Right. Then my last point is, how would we—you all would not control the fees that banks will charge for access to capital through the ATM—I mean through—if an individual used your card, the Federal Government's card to gain access to their SSI payment or to whatever payment, and they used the ATM machine to go and gain access to that capital, they are going to be at the whim of the bank in terms of that fee, are they not?

Mr. MURPHY. I am not exactly sure just how that is going to work. But to the extent that a bank was ever allowed to charge,

you know, some exorbitant amount, the customers would still have a choice of banks available and terminals that they can go to. If some are charging a lot more than others, I don't think it would last very long. But there may well be in the process of developing this system, some types of limitations on charges.

We certainly intend for means-tested programs; that people be able to access their benefits for free, and would only consider a nominal charge if they want to, you know, exercise additional transactions.

Mr. FIELDS. Mr. Murphy, my time has expired. The reason why I ask that question is because it appears to me that a person can in fact be charged twice.

You have already stated that this is not going to be a totally free system and a consumer may, in fact, or the recipient may, in fact, pay a fee to gain access to their cash. Now, banks are certainly not going to provide this service for free, so I mean, I think you need to really take into consideration, because these people are working on fixed incomes, so you have to work—you know, you certainly don't want to—it may be very convenient for the government to give a person a card, and we may be able to close payroll centers across the country, check centers across the country—accounting centers is a better name—and we may save money. But I want you to take some serious—put some serious thought to what it will cost the actual recipient of those funds.

Mr. MURPHY. Absolutely. And you know, again, for the means-tested programs, it is fully our intent to not disadvantage anyone through a technological advance. We want them to be able to access their benefits, you know, for less than what it is costing them now, and we definitely will take that very seriously.

Mr. FIELDS. Thank you, Mr. Chairman.

Chairman NEAL. We have a vote, but we have 10 minutes. Ms. Roybal-Allard, would you like to go ahead?

Ms. ROYBAL-ALLARD. Certainly. I just have a few questions. First of all, I want to dispel a myth that people have choices, that if they don't like what one bank is charging in their area, they have the opportunity to go somewhere else. That simply is not a reality for every place in this country.

For example, in the relatively affluent community of Pasadena, California, there are 50 branches servicing a population of 138,000. In my district, there are only 5 additional branches serving 8 southeast cities in Los Angeles County, with a population of 571,000.

So this idea that people have choices and, therefore, don't worry about the fact that a particular bank charges an excessive amount of money is simply not true. People are going to be stuck with whatever a particular branch in some areas decides to do. There is no protection for them.

My question is in regards to the pilot projects that you are talking about, what exactly is the purpose of these projects? Are you working out the electronic bugs, or determining if the pilot projects can be applied uniformly throughout the country? I have concerns with standardization because one size simply does not fit all.

I would like you to elaborate a little bit on that, because it is obvious that what may work in one of the pilot project sites may not

in another. I don't know where they all are or if you have one in a community such as mine with only 55 branches. So the question is, how are these pilot project sites selected? Are they really representative of the various communities throughout this country?

And in addition to finding out whether it works electronically, is there also a set of criteria to see if, in fact, this program will work for people who are going to use these services with this new technology?

Mr. MURPHY. The pilots were intended to accomplish a number of things, as you implied. One was to determine whether we could develop something that was cost effective for the government; and another was to find out, you know, whether people like these systems and could use them and found them beneficial. And I think we have done both.

In terms of the geography, I believe that the pilots basically evolved based on who was interested in exploring it. Some of the States took an early interest in this because they could see benefits to the government and to their customers, and have moved out in front. And so I can't tell you that we have gotten, you know, the perfect sampling of geographic locations to be sure that it would work for everyone.

But I would also point out that if we roll out a nationwide system and there is $111 billion a year going through it, you are going to get more ATMs and you are going to get more POS terminals, both in urban and in rural areas, I think.

And also, I do want to assure you that——

Ms. ROYBAL-ALLARD. But, excuse me, let me just back up on that. When you say you are going to get more, I assume that this equipment has to be purchased.

Mr. MURPHY. I believe that, you know, we have found out already that when you have got people using an EBT card in a given area, that banks have opened up ATMs at additional branches. We have had some experience along that line already.

Chairman NEAL. Ms. Roybal-Allard, I am sorry, but I think we only have about 3 minutes to get over there and vote.

Ms. ROYBAL-ALLARD. OK. We had better go.

Chairman NEAL. I tell you, if there are other questions, we will submit them in writing to you. Do you want to come back and question Mr. Murphy any more, or do you want to go to the next panel?

Ms. ROYBAL-ALLARD. I will submit them in writing.

Chairman NEAL. So, Mr. Murphy, thank you, sir, very much for being with us; and we will let you go now and pick up with the other panel when we return.

Mr. MURPHY. Thank you very much, Mr. Chairman.

Chairman NEAL. Thank you, sir.

[Recess.]

Chairman NEAL. I would like to call the subcommittee to order once again and welcome our second panel, which is comprised of the Honorable Elizabeth Randall, commissioner, New Jersey Department of Banking; Ms. Dale Brown, project director of EBT for the State of Maryland; Mr. Marcelo Elissetche, chairman, Alianza Federal Credit Union; Mr. Bruce Hodge, vice president, First Union Corp., Charlotte, North Carolina; Ms. Michelle Meier, counsel for

government affairs for Consumers Union; and Mr. Jeffrey Silverman, the president and chief executive officer, M.S. Management, Inc., of Northbrook, Illinois.

Before turning to our panel, I believe Mrs. Roukema wanted to introduce one of our panel members. Mrs. Roukema.

Mrs. ROUKEMA. Well, I thank you, Mr. Chairman. This timing is extraordinary, with everything else we have going on today, including Rules Committee for the Health Care bill initiated today.

I am very, very pleased to be able to be here, because of a very special person who is ready to testify before us today, Ms. Elizabeth Randall—we all know her as Liz. We are very pleased that she is here today. She is the commissioner of banking for the State of New Jersey, recently come to that position with the new administration.

But I take a special pleasure not only because New Jersey has been in the forefront of banking issues and banking reform and good, solid banking requirements and oversight and regulation, but also because Ms. Randall is a personal friend. She has been not only a good personal friend, but an outstanding leader in all issues relating to New Jersey, both as a member of the legislature, as a private practice lawyer, and then in her capacity as a lawyer and attorney for the county of Bergen, which I represent.

We are very proud of her and we were thrilled to know that banking issues were in good hands when Elizabeth Randall took over as the commissioner; and I know that she will be able to contribute today to our understanding of the needs in the future of banking, consumer checking, and so forth; and we are very pleased to have her here. I wanted to be here personally to welcome you, Ms. Randall.

Ms. RANDALL. Thank you.

Chairman NEAL. Thank you, ma'am, very much.

I would like to recognize Mr. Klein at this time.

Mr. KLEIN. Thank you very much, Mr. Chairman. I already did make some very brief comments, including a warm welcome, but not too lengthy a welcome, so that I would give you an opportunity, Mrs. Roukema, to do the job and do it the proper way.

But I would just like to make one comment that I am very proud of New Jersey's leadership in this area, of providing services to the poor and the working people. But there is one particular area where I think we could do a better job, and that is in the area of encouraging young people.

And I wanted to make a comment about a news item that appeared in one of my local papers just recently about a young man, 12 years old, who had saved up a roll of quarters, 10 dollars' worth of quarters, and he went to a local bank in my district and he had learned his economics lesson very, very well. And he went to deposit that $10 roll of quarters, and the bank wanted to charge him a 1-percent fee for depositing the rolled coins. And he also learned a very good lesson because he did the right thing; he took his business elsewhere.

But I would hope that somewhere in our efforts to extend banking services to everyone, we also encourage our young to participate in banking and to understand the importance of banking and to understand the importance of savings. And I would hope that

this incident is the exception rather than the rule, because I can't think of any more valuable lesson that young people can learn for life than the value of saving their money.

Chairman NEAL. Thank you, sir, very much.

And again, I would like to thank our panel for being with us today, and we look forward to hearing from you.

If there is no objection, we will just recognize you in the way that I read your names originally. Is there any objection to that? All right.

We will put your entire statements in the record and ask that you summarize and abbreviate a bit so we will have a little more time for questions and answers.

Thank you again for being here, to help us understand how we might improve in this area of service accessibility.

We would first like to hear from Ms. Randall.

STATEMENT OF HON. ELIZABETH RANDALL, COMMISSIONER, NEW JERSEY DEPARTMENT OF BANKING, TRENTON, NJ

Ms. RANDALL. Thank you, Mr. Chairman and Representatives Roukema and Klein. You have made me feel quite at home. I am also a graduate of Wake Forest University.

Chairman NEAL. Is that right?

Ms. RANDALL. It is delightful to be here.

Chairman NEAL. I know you are well prepared.

Ms. RANDALL. Let me congratulate you, Chairman Neal and your distinguished colleagues, on the recent passage, first, of the Banking Efficiency Act of 1994; and I thank you for agreeing to revisit this issue of low-cost basic banking services.

I appreciate the opportunity to be here today to give you some insights into basic checking, based on our experience in New Jersey.

On December 1, 1992, New Jersey became the first State in the country to require all banks, thrifts, and credit unions to offer lifeline checking accounts. In September 1990, prior to the enactment of this law, the Department of Banking conducted a study of the availability of basic banking services. We found that approximately 25 percent of New Jersey financial institutions, mostly the larger ones, offered a checking account which could be loosely classified as low cost.

In addition, we found that minimum balance requirements of all checking accounts averaged approximately $500. At the same time, an independent study tracked a trend in the industry toward higher fees for retail banking services.

Our research also indicated that the absence of a basic checking services program forced young people, people of modest income, and the elderly to operate on a cash-only basis, thus making them more vulnerable to theft and leaving them with less control over their finances. I think we can all agree that in today's world, having checking services is a virtual necessity.

Our study further determined that these individuals were forced to use relatively costly check-cashing services to cash their Social Security or welfare benefits checks, thereby contributing to the undermining of these public service assistance programs.

The New Jersey Consumer Checking Account Act provides a remedy for these problems. I would like to take this opportunity to briefly outline its features.

One, any New Jersey resident who requests such an account must be provided with one. There is no means or income test.

Two, the initial deposit requirement may not exceed $50.

Three, the minimum balance to maintain the account is $1.

Four, account holders must be provided with at least eight free checks a month and cannot be charged more than 50 cents for each additional check beyond the first eight.

Five, account holders are allowed unlimited withdrawals and deposits.

Six, the monthly maintenance fee cannot exceed $3.

Seven, consumers who hold a New Jersey consumer checking account cannot be charged more for ATM usage or check printing than customers who hold traditional accounts.

And finally, financial institutions are required to prominently display notice of the availability of the New Jersey consumer checking account option.

During the first 4 months of 1993, my department conducted a survey to determine compliance with the new law. I am pleased to report that the New Jersey Consumer Checking Act has been very successful. There has been widespread industry compliance and widespread consumer usage.

During the first 4 months the law was in effect, 153,000 New Jersey consumers obtained a New Jersey consumer checking accounts. I should note that only new checking account applicants are eligible. Therefore, these 153,000 individuals did not possess any other checking account before obtaining a consumer checking account.

Our survey determined that the new law was not a hardship for our depositories. Since most of the larger banks already offered something similar to a basic checking account, it behooved the other banks, from a competitive standpoint, to also offer a low-cost checking account. In addition, the law gives the Department of Banking the ability to grant waivers to banks who offer a product similar to the one outlined in the law and regulations. And finally, the law allows the Department of Banking to give an exemption to a bank that can prove it is losing money on the checking account. I will note in passing that I have received no such applications.

The last issue I would like to touch on is the application of this law to federally chartered depositories in New Jersey. My department's position is that federally chartered depositories within the State are required to comply with the terms of this act. However, as you are aware, the Comptroller of the Currency in interpretive letter number 572 stated that the New Jersey Consumer Checking Act as applied to national banks, was preempted by the Federal Bank Enterprise Act.

This opinion relied heavily on the fact that the Federal act provided national banks with an incentive to offer lifeline accounts. I was pleased to note that Congress has clarified its intent with regard to lifeline checking accounts in the conference report of the Banking Efficiency Act of 1994. Your statement that you did not intend to preempt State laws on basic banking when you included

incentives in the Bank Enterprise Act will, in my view, encourage other States to adopt similar measures. We in New Jersey will be contacting the OCC and we will be seeking reconsideration of opinion 572.

The New Jersey Consumer Checking Account law is a model for other States for several reasons. First, there is definitely a market for low-cost checking account services. Second, the New Jersey law gives the State regulator the ability to assess the requirements of New Jersey's consumers and depositories and tailor the law to meet those requirements. Therefore, the New Jersey checking account statute is truly reflective of the needs of our particular State.

Should the Congress choose to pass a national consumer checking account law, I would respectfully urge you to grant the States considerable leeway so that they can develop a product that is most conducive to satisfying the needs of both the residents and the financial institutions within their borders. I believe all the States can successfully serve as laboratories to test new bank products.

Also, we would very much appreciate any assistance you can lend to encourage the OCC to rethink its position on preemption of State basic banking law.

Again, I thank you, Mr. Chairman and members of the subcommittee, for allowing me this opportunity to discuss New Jersey's Consumer Checking Account law. It is always a pleasure to come here and talk about one of my State's successes.

Thank you.

[The prepared statement of Ms. Randall can be found in the appendix.]

Chairman NEAL. Thank you, ma'am, very much.

Ms. Brown.

Mr. MFUME. Mr. Chairman, a point of personal privilege.

Chairman NEAL. Yes, sir, Mr. Mfume.

Mr. MFUME. Mr. Chairman, I just want to express my regret that the previous witness had been dismissed without every member current at the time having an opportunity to ask questions of the witness. I had been here and had sat; we had our second call on a vote.

Mr. Kennedy and I got up to leave, Ms. Roybal was in the middle of her questioning, we had about 6 minutes left on the vote; and then to my chagrin, I was advised that the witness had been dismissed. Certainly, we don't treat the minority party that way, and I don't think it is particularly fair that members on this side are treated that way.

I have a number of questions and I can only at this time ask unanimous consent that they be made available to the witness in his absence, and at some point in time I get a response. I am not trying to belligerent, but I want to make sure at least that the order which has always been the order of this subcommittee is afforded to every member. In this instance, in particular, I felt to some extent that it had not been.

And so I yield back on my point of order and respectfully would ask unanimous consent that at some point in time, by way of the administration of the subcommittee, my questions are submitted to the previous witness in hopes that he might be able to respond.

Chairman NEAL. I know Mrs. Roybal-Allard was going to submit some questions in writing, and we will certainly be sure that yours are submitted also, if you would like for us to help with that.

I certainly apologize to the gentleman. I wasn't aware that he wanted to ask other questions. I should have probably asked him before leaving, but I am sorry, I didn't think of it.

We will certainly do all we can to facilitate getting his questions answered. I feel certain the witness will be happy to do that.

[The questions referred to can be found in the appendix.]

Chairman NEAL. Ms. Brown.

STATEMENT OF DALE BROWN, PROJECT DIRECTOR OF EBT, STATE OF MARYLAND, BALTIMORE, MD

Ms. BROWN. Good morning. My name is Dale Brown; I am the distributor of the Independence Card Program, or the Electronic Benefit Transfer System Program for the State of Maryland. I will try to contain my excitement.

I have been with the Department of Human Resources for 25 years. I started when there was Venable Foods in the State; we used to give out cheese and flour and potted meat and whatever. I went into the Food Stamp Program, and I was the very first food stamp trainer for the State of Maryland; and now I am the director of the Independence Card or the Electronic Benefit Transfer System Program for the State.

In November 1989, the State of Maryland began to pilot an electronic benefits transfer system project that delivered multiple welfare benefits to recipients using a single classic debit card known as the Independence Card. It works very much like an ATM card. Recipients that were eligible for food stamps, for Aid to Families with Dependent Children, Disability Assistance Loan Program, which is our General Public Assistance Program, child support bonus, and nonpublic assistance child support participated in the pilot. The pilot project began in the Park Circle District in Baltimore City. There were approximately 5,000 clients and 150 stores. The pilot was very, very successful and eventually led to the statewide expansion of the EBT project.

Today, in Maryland, we service over 168,000 households who receive public assistance using the Independence Card. This month alone, we authorized in excess of $55 million in cash and food stamp benefits electronically. Over 99 percent of our recipients receive benefits using EBTs. Clients can access their cash benefits from an ATM machine in the MOST network, or get cash from point-of-sale terminal devices that are located throughout the State of Maryland.

During the initial phases—during the planning stages, what we did was to look at accessibility for the client. We needed to make sure that there were enough ATM machines; we needed to make sure there were enough cash access facilities available, and in areas where there weren't, we actively went out to talk to nontraditional merchants. For example, there may have been a K-Mart who cashed checks in a certain area. So we have some nonfood retailers who are also participating, who allow the clients to get cash back. So we have adequate access in the State of Maryland.

Despite some early resistance from a large number of clients, much of the skepticism has really disappeared. The clients have now begun to depend upon the efficiency of the system and would name the very same benefits that we used initially to sell the system to the community: Knowing exactly when the benefits would be available without depending on the mail. When we were under a paper system, the client would have to wait for the mailman to come. He could come anywhere from 8 o'clock in the morning to 5 or 6 o'clock in the evening. But with the Independence Card Program, or EBT, as it is called nationally, the client knows that on a certain day of the month at 9 o'clock in the morning, benefits will be on the system and available for their use.

There is better money management. We are seeing that the client is now spreading the money out over the month, or spreading the food benefits shopping over the month.

There is a definite protection against loss and theft.

There is no charge to access benefits.

There is no need to withdraw all of the benefits at one time. When we were under paper, the clients would cash the check and carry around the cash, so they would often be victims of crime, you know, or lose the cash.

And, of course, the system is convenient and it is very, very secure.

In the area of client training and card issuance, the Maryland Department of Human Resources and the Federal agencies had a great deal of concern about how these recipients would accept this new technology and how the card would be managed among so diverse and challenged a population. What we found was that the learning curve was relatively short. They started helping each other. We spent a lot of time training the client, and once they were trained, the word passed very rapidly through the community on how to use it. So we haven't had that many problems with that.

We also had a very large proportion of elderly, disabled, and addicted, and it was for this reason that we gave so much attention to the design of the client training. Each recipient was required to attend a 1-hour training session prior to receiving the card; they were shown a video that introduced them to the card, and then given a followup explanation by a trainer of whatever—of the fine points of the card use. The training emphasized protecting the magnetic strip on the card, selecting a PIN number that will easily be remembered.

In EBT in the State of Maryland, the client gets to select that personal identification number, so there is less chance of them forgetting it; and it is stressed in training that we are not to write the PIN number on the back of the card, and not to write it anywhere near the card, so that is stressed.

We have had very few clients who have called to say, I haven't—I don't remember my PIN number, or I have lost my card and someone has taken my benefits. Initially, it happened, but once they got used to using this type of technology, we have had very few problems, less than a half of a percent.

At the end of the training session, the recipients were given a list of locations of the local point-of-sales devices and where the ATMs were located. Each client received a wallet-sized card with a num-

ber for the automated response unit where they can call from a touch-tone phone to get their balance 24 hours a day, 7 days a week.

The card itself also contained the customer service number in Milwaukee where the recipient calls with card-related problems or to report a card lost or stolen. In the event a client has a card that is lost or stolen, they simply call this number and the card is—something happens called hot-carding, which means that the card is deactivated immediately. So there is—even if someone finds the card and for some reason, which rarely happens, the client has written the PIN number on the card or on the little jacket that it slides into, they won't be able to access the benefits. So the card is hot-carded, and the client goes into the local Department of Social Services and the card is replaced at no charge to the client.

The training sites were equipped with mock ATM machines, a point-of-sales device, a touch-tone phone that the recipients could get hands-on training with all of the different types of technologies that they would be using. Once the hands-on training was complete, the recipients were allowed to select their personal identification numbers, which is called the PIN number, and receive their cards.

The client is the only person that knows that personal identification number. The agency has no record of it. So in the event the card is lost, we would have no way of giving—of telling them what it is. It is just invisible to our system.

What we learned in Maryland, after the fact, is that the recipients have felt a greater—have felt greater self-esteem since they are using the same technology that is found among the banking customers. Many have stated that they just like the idea of having plastic in their pocket. We now know that clients transact more than half of their cash from ATMs; they average about four ATM transactions per month. Overall, the Maryland project has demonstrated that a nationwide system can be successful and cost effective, as well as moving recipients toward the age of technology.

We love EBT in the State of Maryland—the State, the merchants, the clients, all the stakeholders that are involved—because it is very successful. However, we are facing a challenge in regulation E. Regulation E is a show-stopper. I attended a conference last week in Virginia, and it was a conference that consisted of all of the States in the Union, and on just about every person's mind was regulation E. We would love to move forward, but regulation E may stop some of the States from moving forward.

In the State of Maryland, we are looking at the possibility—well, we are looking at how much it would cost and how long it would take to take the system down if we cannot get any relief from regulation E.

Our goal at the Department of Human Resources is to provide services to low-income families, but we need some help with the regulation E problem. I am working with the Federal and State work group, and we are trying to come up with some alternative ways that will provide consumer protection as well as to offer some relief to the States. Our concern is that regulation E will increase abuse in our programs, and we would welcome the opportunity to work with this subcommittee to find a solution.

What we need to be careful of is that EBT is not compared to the current banking system, that we are comparing it to the past paper system of the way that we issued, you know, welfare benefits. It is clearly a cost savings, it is clearly a social good, and our clients really, really love it.

Thank you.

[The prepared statement of Ms. Brown can be found in the appendix.]

Chairman NEAL. Thank you, ma'am, very much.

Mr. Elissetche.

STATEMENT OF MARCELO ELISSETCHE, CHAIRMAN, ALIANZA FEDERAL CREDIT UNION, WASHINGTON, DC

Mr. ELISSETCHE. Thank you, Chairman Neal and members of the subcommittee. My name is Marcelo Elissetche; I am the chairman of the board of directors of Alianza Federal Credit Union. It is a low-income designated community development credit union chartered in November 1993 to meet the financial needs of low- and moderate-income people in the neighborhoods of Mount Pleasant, Adams Morgan, and Columbia Heights in the District of Columbia. We opened formally for business on December 16, 1993.

The geographical area of the credit union has a large number of low-income residents. In ward 1 alone there are 8 banks and only 10 bank branches compared to ward 3, which has 16 banks and 42 branches for a population that is greater by only 5 percent. The branches, with one exception, are distributed around the edge of ward 1 leaving a large part of the ward without banking services.

The services offered by the existing local banks are not suitable for low-income people. In terms of access to credit, there is very little consumer financing that is either affordable or appropriate. In the Alianza FCU's geographical area, there are no personal loans available in amounts less than $1,000; for amounts that low, the interest is above 19 percent. Most banks only make personal loans in amounts greater than $2,500, which rates for an unsecured loan in the 13-percent-and-up range. To get rates under 10 percent, loans must be secured against a certificate of deposit or at least an account balance equal to the amount of the loan. The only types of credit available from these banks is overdraft protection with rates comparable to credit cards, between 18 and 21 percent.

In addition to the inappropriate loan products, fees are very high. Also, the lowest minimum balance required for a checking account amount by these banks is on the average of $400.

Perhaps most dramatic in an examination of the use and availability of banking services in our geographical area is the evidence provided by the events following the demise of the Latin Investment Corp. It is an issue that the chairman mentioned in his opening statement, which was an insecure, nonapproved institution that covered services for the Latino community in the last 8 years.

In 1990, the LIC went bankrupt, and the officers disappeared. About 3,000 families lost $6 million in the process, most of them low-income people. Only very recently the officers were brought to trial, but they all received very light sentences. So these depositors have a terrible mistrust of financial institutions.

Nevertheless, this community saves a great amount of money. Most of the major corridors of the area that we cover in these neighborhoods are classified as underserved by the DC Office of Banking and Financial Institutions. Furthermore, in a study completed by the Metropolitan Washington Planning and Housing Association, entitled "Summary of Bank Lending Practices in the District of Columbia," ward 1 ranked fourth in total mortgage lending by ward. Evidence suggests that the money lent in other wards was directed primarily at the upper income, better served tracts in the wards. In ward 1, although 55 percent of tracts qualify as underserved, lending to these tracts constitutes only 12.2 percent of lending in the ward.

An analysis of the pledge forms submitted by our supporters yielded a list of priority services that the community considered that Alianza FCU should offer, basically, what they wanted from us. The most demanded services were savings accounts, transfers abroad, and checking accounts and check cashing. In terms of types of loans, auto loans were the most popular, followed by loans for education, home purchase, and personal loans to pay for medical expenses.

Before opening 8 months ago, Alianza started to develop partnerships with existing financial institutions. We started with First Union Corp., to enlarge our deposit base for the credit union with equity intermediaries such as the Local Initiative Support Corp. [LISC], to establish appropriate physical facilities for financial services, and try to have very conservative targets for the first year of operation.

As I said, we opened in December, but we have learned a couple of things in the process. We require much larger participation of financial institutions and forward-looking corporations for the capital base. But that is not really the main problem. We still find, either through CRA requirements or through community investment coalitions, much better understanding now than 3 or 4 years ago. The major problem is the mistrust of the community because they have always been outside of the banking system, either because they don't want to pay or they cannot pay the fees, or they cannot access them because they don't have Social Security numbers.

Whatever the case, Alianza is providing these services. And if we look at the members that we have now—in a period of 6 months, over 100; we have everything, whites, African-Americans, Latinos, Eritreans, Africans, people from the Middle East, Russians, Philippines, Vietnam, and Indonesia. That is the diversity of these neighborhoods.

All of them share the same problem; none have had a bank account before, and the ones who had, they change it because they don't want to pay the fees. In particular—and this is very bad for senior citizens and high school students—the fact that they cannot cash their checks with summer employment, or in the case of all of these groups of immigrants, whether they want to send money abroad to their families to whom they are sending money.

So the process of restoring confidence is a large part of our work. It is not the marketing or the services that are at issue, but the trust.

The task is doable, but small and emerging institutions such as ours need more understanding and support of the institutional process—access to technical assistance, capital to lend, and the support of the process. We are very hopeful that the coming legislation on community financial institutions will give us that kind of access.

At the same time, I have to report to you, Mr. Chairman, that there are many people with goodwill. We have received a tremendous amount of support from the National Association of Community Development Credit Unions in New York; from CUNA, the Credit Union National Association; and although not all credit unions are created equal, we do try to restore the traditional concept of what a cooperative is, meaning it is a member elected cooperative that provides services to its members and each one is a volunteer.

Thank you very much, Mr. Chairman.

[The prepared statement of Mr. Elissetche can be found in the appendix.]

Chairman NEAL. Thank you, sir, very much.

Mr. Hodge.

STATEMENT OF MR. HODGE, VICE PRESIDENT, FIRST UNION CORP., NC

Mr. HODGE. Chairman Neal, members of the subcommittees, my name is Bruce Hodge, and I am vice president and community reinvestment coordinator for First Union Corp., headquartered in Charlotte, North Carolina.

Nationally, First Union is the ninth largest banking company with $72 billion in assets and 1,300 bank branches in 7 States and the District of Columbia. I am also a member of the Consumer Bankers Association's Community Reinvestment Committee. I am presenting this testimony on behalf of the Consumer Bankers Association and the American Bankers Association.

First, let me thank you for the opportunity to appear before the subcommittees and to offer the views of the associations on the availability of basic banking products and services within the U.S. banking industry. The chairman and the subcommittees are to be commended for holding this hearing on these important issues.

We believe that any person who desires to, should have access to affordable banking services. Banks remain committed to providing these services to all segments of the population. Most banks offer basic banking services and other affordable banking products. Beyond providing low-cost accounts, many have developed creative and flexible ways to address the banking needs of their communities and those efforts will continue. In my testimony today, I would like to share a few examples with you.

In addition, my written testimony briefly addresses a public-private partnership which enhances services to Federal benefit recipients through Electronic Benefit Transfer Programs, and we have heard much about that earlier today.

At First Union, over 300,000 of our customers maintain basic checking accounts, which require no minimum balance. Last year CBA surveyed its members to determine the availability of basic banking accounts. This survey found that First Union is not alone

in providing these products. Nearly 95 percent of the surveyed banks offered basic banking accounts and the vast majority of those had no minimum balance requirements.

The survey revealed other features of these accounts, and I will be happy to make it available to the subcommittee if you would like to see it.

[The information referred to can be found in the appendix.]

Mr. HODGE. But surveys and studies tell only part of the story. Basic banking accounts are available, but not everyone who might benefit from them is taking advantage of them. So banks are trying new approaches to make basic banking, check-cashing, and other valuable financial services more available to lower income communities. In some cases, this involves making the bank more accessible to the communities.

At First Union, for example, we have approximately 25 percent of our branches located in low- and moderate-income census tracts. This summer, we announced that we will open a new full-service branch later this year in Anacostia here in the District of Columbia. We hope that this branch will provide the Anacostia community with greater accessibility to our products and services.

In addition, many banks engage in very creative outreach programs targeted to address community needs. For example, one bank in Nevada has developed a check-cashing assistance program to provide basic banking services, including savings accounts, to residents of eight homeless shelters in the Las Vegas area. Another example is a large New York bank which has had a program in place since 1992 to offer basic banking accounts to several thousand homeless vets who live in the streets and the shelters of the city, and more than 350 have taken advantage of this program to date.

Banks all over the country sponsor community outreach seminars in lower income areas, often in cooperation with local church groups and community organizations. These programs are beneficial to the communities as well as to the banks.

Just to offer one example, a bank located in a market with a substantial Haitian population learned through its outreach efforts that its market was principally interested in savings accounts. Working with a local Haitian community organization, the bank hired a Creole translator to assist banking personnel in conducting seminars on how to open a savings account. The seminars were held in the evenings in a local branch and participants opened accounts after the seminar.

In addition, many banks, including my own, have become very involved in school programs to teach basic banking and financial skills to students from elementary school on up. Our program provides training services and credit management free of charge to high schools throughout our eight-State region. Many other banks have instituted similar programs.

As you heard earlier, EBT is another effort to help provide products and services to lower income communities.

It is clear that low-cost basic banking accounts are readily available to consumers in most every region in the country, and customers have a variety of options to choose from when shopping for a basic banking account. Institutions are trying creative new ap-

proaches to make basic banking, check-cashing, and other financial services accessible to lower income communities. In particular, education and counseling is now widely employed by banks throughout the country to teach basic banking and financial skills to those who may need it. In addition, new ways of delivering government benefits are constantly being explored and implemented by the Federal Government in concert with the banking community.

The industry remains committed to identifying new programs to improve our ability to meet the needs of low- and moderate-income consumers.

Thank you for the opportunity to appear before you this morning, and I will be glad to answer any questions after the rest of the panelists have spoken.

[The prepared statement of Mr. Hodge can be found in the appendix.]

Chairman NEAL. Thank you, Mr. Hodge, very much.

Ms. Meier.

STATEMENT OF MICHELLE MEIER, COUNSEL FOR GOVERNMENT AFFAIRS, CONSUMERS UNION, WASHINGTON, DC

Ms. MEIER. Thank you very much, Mr. Chairman. Before getting started, I would like to congratulate you, Mr. Chairman, on your recent success in getting the full House to pass the conference report on the Interstate Banking bill. As you may know, we weren't in full agreement with everything in that bill, but I know it is a tribute to your political skills in overcoming the controversy that has surrounded that legislation over the years and getting it passed.

I would also like to take the opportunity to express appreciation for the close working relationship we and other consumer organizations had with your staff on the question of applicable State law in the Interstate bill. The provision that the first witness on this panel mentioned, preserving State law in its application to national banks branching into New Jersey, is what I am talking about, and we are very appreciative of the constructive resolution on that issue.

As this subcommittee knows, the question of access to basic banking services has been an issue before the Banking Committee now for about a decade. Ever since we saw the deregulation of interest rates on deposit accounts and other sorts of deregulation in the 1980's, consumers began facing higher and higher costs associated with basic deposit account services. Coupled with the increasing cost of the deposit services themselves is the increasing absence of bank branches in lower income and minority neighborhoods.

I think after the many years of debate and discussion on this issue, my time is probably not best spent documenting the problem. I think the problem has been documented over and over again, in particular, with the annual reports put out by CFA and U.S. PIRG on increasing maintenance fees and other fees like bounced check fees.

Congresswoman Velazquez mentioned a study that a Senator in New York recently published documenting the increasing absence of banks in New York boroughs, particularly low-income and minority parts of the metropolitan area. My California office, which

has worked also for years on basic banking availability in the California area, recently put out a study on check-cashing costs, which are exorbitant, and in that report mentioned the absence of branch offices in minority and low-income neighborhoods in California. For instance, in West Oakland, which has a population of 48,000, there is not a single branch office to serve that community.

We are very disappointed—and I am sure I speak for all the consumer and community groups that have worked on access issues that Congress has failed to address this issue over these many years. We are pleased, on the other hand, to see the State of New Jersey taking initiative on this issue, and I am told that the State of New York has out in proposal form a law similar to that of New Jersey, which would result in a $3 ceiling on basic banking accounts.

As Mr. Murphy mentioned, we think that the New Jersey experience and the soon-to-be New York experience only underscores the importance of preserving the prerogative of States to enact consumer protection laws without being preempted by the Federal government. And, hopefully, the experience in New Jersey and the experience that the private sector is having in providing basic banking accounts today in the marketplace will finally provide the impetus for Congress to finally resolve this question with similar regulation.

I would like to spend the balance of my time discussing the Electronic Benefits Transfer issue, which I presume, since it is being raised in the context of this hearing, is being presented and perceived as one way to address the access to basic banking services issue.

My organization and all the major consumer groups and other welfare rights advocates have been working on this issue, primarily at the executive branch level, for several years now. We expect, given the board's decision earlier this year, that this issue will come more frontally to the Banking Committee in the next year, where we hope that we will have a full hearing and airing of views.

I would like to say, first off, that we and, I think, all of the consumer groups are very supportive, as a general matter, of EBT as a step forward in delivery of welfare benefits to public assistance recipients. However, that has to be qualified with the statement that there are many questions of implementation that must be addressed before we can decide whether this is actually a net gain for recipients or a net loss.

I would also like to indicate that we do not see Electronic Benefits Transfer as a substitute for basic banking account offerings by commercial banks. EBT is for the unbanked community. As it is currently conceived, and I think will be implemented for the foreseeable future, EBT will simply provide an electronic means to access public assistance funds and benefits.

Recipients who have other sources of income, other sources of cash, will not be able to use their EBT account to deposit those other sources of funds. A bank—an affordable banking account, is necessary for that function.

A lot has been said today in this hearing on the question of regulation E, and I have spent a lot of time on regulation E. Before

going into our views on that, I would like to clarify what regulation E is all about.

Regulation E is a regulation that the Federal Reserve Board issued under a law that came out of this subcommittee in the 1970's called the Electronic Funds Transfer Act. That is basically a consumer protection law that prescribes the rights and responsibilities of consumers and financial institutions when funds are transferred electronically.

It, basically, provides three protections: Documentation requirements, so recipients will have a way to document debits and credits to their electronically accessible account. Statement requirements are a part of the documentation requirements. It also puts ceilings on the liability that consumers have to bear when someone steals money out of their account electronically. And it also provides dispute resolution procedures in case of an error.

For example, if a consumer goes to a cash machine and punches in $100 for a withdrawal but the machine is out of cash so the consumer doesn't get the cash but has $100 debited from the account, the error resolution procedures of regulation E would kick in, requiring expeditious recrediting to the account of the $100.

We think that these basic protections are ones that should benefit rich consumers, middle-income consumers, and poor-income consumers alike. And that is the premise under which the Federal Reserve Board operated when it last year put out as a proposal the application of regulation E protections to public assistance recipients in an EBT context.

The Board at the proposal stage said, we know some States don't like having regulation E applied to EBT, but we want to put the burden on the States to present the evidence that these protections are going to produce such an undue burden that it will make EBT unviable.

The Board went forward and finalized its proposal, making regulation E applicable, because the States did not even come close to meeting its burden. The States have produced no empirical data, not even any theoretical data to support their claim that regulation E will make EBT unviable. And, in fact, the only empirical data we have to date, which is the experience of the Social Security Administration in an EBT pilot in Houston, which did conform with regulation E, is that the cost of regulation E is minimal.

So I can see my time is up, and I will be happy to answer any questions on this. We think it is a very important matter.

[The prepared statement of Ms. Meier can be found in the appendix.]

Chairman NEAL. Thank you, ma'am, very much.

Mr. Silverman.

STATEMENT OF JEFFREY SILVERMAN, PRESIDENT AND CHIEF EXECUTIVE OFFICER, M.S. MANAGEMENT, INC., NORTHBROOK, IL

Mr. SILVERMAN. Mr. Chairman, my name is Jeffrey Silverman. I am president and chief executive officer of M.S. Management, Inc., headquartered in Northbrook, Illinois. We are a privately owned family company which provides a broad array of financial services, including check cashing, in three States.

I am testifying today on behalf of the National Check Cashers Association, which represents more than 2,400 individual check-cashing centers in 35 States and is the industry's leading voice on legislation, regulatory, and business issues. I am currently a vice president and member of the board of directors.

We are pleased to be able to provide some information to the subcommittee regarding financial services in low-income communities. My firm serves many such neighborhoods, and I welcome the opportunity to discuss the services we provide to residents and to suggest some cutting-edge prospects for new services.

Our customers choose to use our services for a variety of reasons. They seek cash payment and ancillary services usually not available at banks.

A survey conducted by the Roper Organization found that two-thirds of our customers already have bank accounts. These customers use our services largely as a matter of convenience. Our stores have longer hours than banks, conduct faster transactions than banks, and are less crowded than banks.

We specialize in serving customers seeking to cash checks, purchase money orders, or send wire transfers, and make a special effort to welcome them.

Many of my company's stores are located close to banks. In fact, a substantial number of check cashers are moving into suburban communities where there is no shortage of banks.

Furthermore, a study prepared by the State University of New York found no statistical relationship between branch bank closings and the opening of check-cashing stores.

The most important difference between banks and check cashers is that we cash checks without requiring funds on deposit. For a low- or moderate-income individual, especially one-third of our customers who don't have bank accounts, it is important to be able to get access to cash immediately in order to pay the rent, buy groceries, or pay utility bills.

Who are the people without bank accounts? Professor John P. Casskey concluded in a recent study that a decline in account ownership is a reflection of the deterioration in the economic situation of low-income households. He points out that the average real income of families in the lowest 20 percent of income fell by nearly 10 percent between 1979 and 1991.

A 1989 survey of the University of Michigan's Survey Research Center which was sponsored by the Federal Reserve Board found that more than two-thirds of those with incomes below $11,970 said that they either don't have sufficient money or don't write enough checks to make a bank account worthwhile.

Thus, the evidence shows that no matter whether banks are available or if they lower their fees, there will always be a segment of the population that neither needs nor wants to use bank accounts for cash payment services.

Check cashers have developed a network of facilities which provides convenient and professional financial services for this unbanked population.

Your staff requested that I discuss how check cashers operate our businesses.

The bread and butter of our industry is, of course, the cashing of checks for a modest fee, which is dependent upon market conditions and the cost of doing business. We use various methods of verification to make certain the customer actually is the payee listed on the instrument, including examining identification and contacting the maker of the check. The most common check cashed is the payroll check, and our tellers are aware of the neighborhood businesses.

Subsequent transactions are quicker and more efficient for both the check casher and the customer. Some check cashers will issue an identification card to customers on the first visit.

After cashing a payroll check, many customers choose to purchase money orders or pay utility bills in our stores. Many check cashers charge very low fees for money orders compared to other agents of money order issuers.

Check-cashing fees are based on regulatory and market conditions. Our industry is highly competitive, so it is difficult and rare for a check casher to charge fees significantly higher than the norm.

As Congress and the States endeavor to assure access to financial services for low-income communities, we in the check-cashing industry stand ready to work with you. There have been some innovative proposals made recently about how the extensive check-cashing network could be extended to further the goal of providing services to the community which need more than check-cashing payment services.

Earlier this year, the Office of the New York City Public Advocate proposed that the check-cashing network itself could be used to deliver some traditional banking services in cooperation with the depository institutions. Such services could include receiving deposits from check-cashing customers, with check cashers acting as agents or limited branches of banks. We understand such a proposal is being considered for submission in New York.

Other proposals have been made at the State level to permit some banks to pool resources to reimburse payment of check-cashing fees to check cashers on government benefits checks in exchange for Community Reinvestment Act credit. These concepts in their infancy—are in their infancy but could offer some intriguing possibilities for expanding services to the communities in need.

The idea is to use and expand the existing financial services delivery system which check cashers have created to provide additional, desirable financial services in targeted areas of proven need.

The check-cashing industry in several States is already in the forefront of delivery of government benefits, including SSI, Aid to Families with Dependent Children, food stamps, and State aid. In some States, including my home State of Illinois, we have been helping to deliver benefits for many years.

As the use of electronic funds transfer for delivery of benefits develops, we stand ready to work with Congress, the administration, and the States to continue to help deliver these critical benefits to people as well as other financial services where the need is established.

Again, Mr. Chairman, I thank you for inviting me to appear today, and I would be pleased to respond to any questions.

[The prepared statement of Mr. Silverman can be found in the appendix.]

Chairman NEAL. Thank you, sir, very much.

I would like to thank all of our panel. I think it has been a very fascinating presentation this morning, very useful to us in many ways.

I want to ask, first of all, if you all would agree that if we are not able to get to every question we want, we will be able to issue some questions to you in writing and for you to answer them in writing. I just want the record to show everyone is indicating that they would be happy to do that.

I have, first, a question, if I may, briefly, for Ms. Brown, because it sounds to me like you have this electronic system really implemented in your State.

Ms. BROWN. Yes, we do.

Chairman NEAL. Fully implemented, it sounds like. Now, is this system essentially an alternative system to the banks or do you operate through the banks at all?

Ms. BROWN. Well, let's see. It is an alternative system. Well, not really. We operate through the bank, because there is ATM. It is on the ATM/MOST network.

Chairman NEAL. It is on the bank-run ATM network, so you are a part of that network.

Ms. BROWN. That is correct.

Chairman NEAL. Do you ever deposit checks electronically into a person's individual bank account?

Ms. BROWN. No.

Chairman NEAL. Why not?

Ms. BROWN. Well, they are not really bank accounts. It is like—more like a holding tank, where a pool of money goes in every month for benefits for all of the clients. And when they put their card into the ATM machine, it actually links it by way of a case number or a card number, and it pools the amount that they, you know, are allowed to access out.

Chairman NEAL. Well, all right. I understand that.

But it also could be run in an alternative way, couldn't it, where for instance, an individual deposit was made for a person? Let's say a person had a $500 Social Security check—well, you don't do the Social Security.

Ms. BROWN. No. We just have welfare benefits.

Chairman NEAL. Well, let's say it is a $500 AFDC amount. Couldn't that go to an individual checking account?

Ms. BROWN. Oh, sure, it can. In fact, in the State of Maryland we do offer the client—we tell them they can either use the Independence Card, which is the EBT, or if they have a direct deposit, we can put the cash benefits directly into their own account.

Chairman NEAL. Yes. And how does that break down? How many people do each?

Ms. BROWN. Well, let's see. On the Eastern Shore of Maryland, about 80 percent of the caseload have their own bank accounts. Now, that is the highest anywhere in the State.

Chairman NEAL. So in those cases, does the amount always go into the individual bank account?

Ms. BROWN. Yes. If the client chooses. The client has the option.

Now, with our nonpublic assistance child support cases—that is a voluntary program—most of them have their own bank accounts. So we are able to deposit their checks if they like into their accounts.

Chairman NEAL. So, clearly, it can operate both ways. It can operate either as a debit card, I guess you call it, or it can work through the banking system.

Ms. BROWN. It is operating that way in Maryland on a voluntary basis, yes.

Chairman NEAL. It sounds like a great example, it sounds to me, like for the rest of the country. You are very enthusiastic about it, and it works well.

Ms. BROWN. Yes.

Chairman NEAL. What about the loss ratio through fraud and theft and so on?

Ms. BROWN. Well, what we are seeing—we have no way of knowing. We estimate it to be somewhere between 1 and 5 percent. What EBT allows is a fantastic tracking mechanism. We now can see who has used the card, at what time, at what place, and what amount was taken out of the account.

Like I said, we estimate somewhere between 1 and 5 percent is fraud. Now, whether that is an increase or a decrease of the way it was under paper at this point we have just no data on that.

Chairman NEAL. Now you said this regulation E would be a killer.

Ms. BROWN. A showstopper.

Chairman NEAL. A showstopper, you said.

Ms. BROWN. Yes.

Chairman NEAL. Because the liability to the State would be so great that the State would not participate, is that what you are saying?

Ms. BROWN. Yes. It would almost—it would put us out of business. It is an unfunded mandate. And if the fraud rate is between 1 and 5 percent, Maryland has estimated losses of between $5 and $25 million a year, and that is just more than we can afford.

Chairman NEAL. But just add $5 to $25 million to your budget.

Ms. BROWN. To our budget, right.

Chairman NEAL. Well, it just points to the importance of that question.

My time has run out, but I have one question, if I can, for Mr. Hodge. This is a question I have had for a while. Someone told me recently there was a check-cashing facility that opened up right next door or just a few doors down from a First Union branch.

I heard what Mr. Silverman had to say about the additional services and better hours and less waiting time and all of that that the check cashers offer. How do you see that? Why do you think that the check-cashing operations have grown so dramatically right next door to banks? What is the bank not doing or how do you see this?

Mr. HODGE. I am not sure exactly what the banks are not doing to attempt to address the need. There are some members of the population that, for whatever reason, just choose not to have a bank account. Perhaps they have had a bad experience before where they weren't reconciling their account and they had some

overdrafts or whatever and it caused problems with merchants. There could be a myriad of reasons.

It could be, as Mr. Silverman said, the convenience and the longer hours and them being open in the evenings when they can come and get their checks cashed. So I am really not certain.

But I do agree with Mr. Silverman's testimony. The surveys indicate that the large percentage of folks that are using check-cashing stores actually have access to the banking system through various bank accounts. So I wish I could give you a better answer as to why we are not doing a better job of addressing that need, but we haven't quite figured that one out yet.

Chairman NEAL. Well, it is very interesting that the check cashers are, obviously, providing a service here that is not being provided otherwise or they wouldn't be doing so well.

Well, my time has expired. I am going to turn the hearing over to Mr. Kennedy, who has very kindly agreed to chair this hearing with me today and is equally responsible for the panel and all of these questions and shares the responsibility for solving these problems.

Mr. Kennedy, thank you sir, very much, and I will leave it with you.

Chairman KENNEDY. Terrific, Steve. Thank you very much, Mr. Chairman, for your efforts and for pulling together a very important panel this morning.

I apologize for having to go over to the House floor on another issue, but I appreciate the witnesses bearing with me.

I want to just go back to some of the line of questioning that Mr. Neal was pursuing.

I, as I mentioned, just a month ago or so attended the opening of a new check-cashing service in a very blue-collar, working class section of the city of Boston, a minority section on one side of the street, sort of a white/blue-collar section of Boston on the other side of the street, and people were generally condemning this check-cashing service for opening its doors.

Now, it is true, Mr. Silverman, that within a block of that office, that new check-cashing service, there were four branch offices that had been hoped, as a direct result of some pressure that we had put on the banks over the course of the last several years, to reopen closing branches in the inner city.

However, it just seems to me that it is reasonably logical that people that go into a branch office that are paid on an irregular basis, that have very low incomes, that are charged excessive fees by banks, that if they bounce a check can be charged an enormous amount of money.

In fact, we had a hearing just a month ago or so where there was a little girl who was a Girl Scout, and she was selling her cookies, and I think she had something like $50 in her account or something along those lines, and she had sold—some woman gave her a check. The check bounced. The bank resubmitted the check, charged her first for the first check bouncing, resubmitted the check again, charged her a second time. Then she wrote a check off of her account for her milk and cookies at her school.

And because she hadn't been told that she had been charged for the two checks bouncing, that were not of her responsibility, the ac-

count didn't have enough money to cover the money for the milk and cookies, and so then they charged her about $25 for her writing a bad check and completely wiped out all of her cookie sales.

Anyway, it was a tragic case of the kind of bank abuse of poor people and fee gouging that we have come to see, at least in my subcommittee, in the past.

Given those kinds of experiences, it is no wonder to me that some lower income person in my district would go to a check-cashing service rather than a bank because a bank, first of all, as you pointed out, Mr. Silverman, generally doesn't provide the kind of office hours that are convenient to people that are in these kinds of circumstances; they do charge these fees; and they are generally viewed by lower income people as being an institution that is full of generally white males, downtown offices, and being unfriendly in nature.

So I want to—having sort of said that, I want to direct my question to Ms. Brown with regard to the experiences that you have had in the State of Maryland and how—whether or not we can get banks to provide—first of all, if you agree with my analysis; second, whether or not it is possible to get banks to provide the same kinds of services that the check cashers provide without coming in with some official Federal mandate and actually weaning them off of the dependency that they have on these check-cashing services which, in many cases, are even worse price gougers than the banks themselves. So that is really what I wanted to kind of get to, Ms. Brown. Maybe you can answer it and give Mr. Silverman an opportunity to respond as well.

Ms. BROWN. What we did in the State of Maryland, prior to implementing EBT, we actively went into the community and spoke to the different services that were available—the bankers, the check cashers, you know, whomever was providing that particular service. What we found in Maryland—Maryland is very diverse, you know, demographically and geographywise. In one county, for example, we only had one ATM machine. So we didn't know what to do with that. We had to go to some of the mom and pop stores to ask them if they would be able to give cash back to the client when the client came in to shop for food. So they, in essence, became check-cashing facilities.

In the larger urban areas, we found that in the inner cities, in the neighborhoods where the people did their shopping, there were very few banks, very few. Plus the check cashers grew out of that, and then the mom and pop stores, again, supported us to become check cashers.

In Maryland, the issue is access. That is what it was. There just wasn't enough banks in the communities. And, for the most part, our clients were not used to going into the banking. They saw that as middle America, you know, that you had to have a bank account, you had to have different types of ID to go in to even cash the check. Even though there was no fee, most of them were not serviced.

Chairman KENNEDY. Thank you.

Since my time has expired, I might ask Mr. Silverman and Ms. Randall to give a brief answer to the question that I raised.

Mr. SILVERMAN. Two-thirds of my customers do have banking relationships. They are exercising their choice to use our services, very similar to in the grocery business where people use 7-Eleven convenience stores versus the supermarkets. People's time is important—as two wage-earners predominate now in the family—time is very, very important.

In addition to that, one major distinction between banks and the check-cashing industry is that the check-cashing industry uses their own funds to cash checks. When you come into a check-cashing store, we have borrowed funds from banks and we pay out on checks that you present to us that take 2 or 3 days to clear the banking system before we get credit. For that we have to charge a fee.

When you go in to cash a check at a bank, unless you already have your own funds on deposit, a bank will not pay out on that check, In today's environment, when money is very tight, it is imperative that people have access to funds immediately.

Banks on the west coast have entered the check-cashing market. They are now charging to cash checks in direct competition with the check-cashing industry. Their rates are very competitive with our rates.

One major distinction, though. They are charging to cash checks while they have government funds on deposit at their bank.

Chairman KENNEDY. I would like to—if you wouldn't mind, Mr. Silverman, I would appreciate it if you could perhaps write me a letter with those—with some specific examples of where that is taking place. I would like our subcommittee to look into that. That would be a very significant development.

Ms. Randall, let me just give you a crack at this. I know you have implemented—my understanding is you have really changed some perceptions in your State. And, also, I just wanted to comment about whether or not your banks actually lose money by providing some of these services.

Ms. RANDALL. We have had a very good track record, Mr. Chairman, and our banks have not come forward to date and said that they have lost money. They do have the right to apply to the commissioner of banking in the State and make a case that they are losing money, but, to date, the record would indicate that our financial institutions are not losing money by virtue of having set up these basic checking account options. I would just note that I think Mr. Silverman touched on it.

I suppose there is a—historically, a different relationship the individual has with the check casher versus the banker. And, in my view, somehow we have to get away from what you, I think, called that negative experience that many individuals have—or negative perception that many individuals have—of the banking institutions and what it means to develop a relationship with a bank.

Clearly, I think there is something to be said for encouraging people to open up a checking account which, of course, gives them not only the option to obtain cash on a debit basis but, additionally, the option to start managing their money by writing out checks on a monthly basis to those to whom they owe money.

Chairman KENNEDY. Thank you very much.

Mr. Mfume just pointed out that, in his view, this is still supposed to be a democracy, which I think had something to do with the fact that there is a red light on. But the fact is that, as chairman, I still see green.

Mr. MFUME. You are Kermit the Frog.

Chairman KENNEDY. I am not exactly certain who was next in line. Mr. Mfume.

Mr. MFUME. Well, thank you. Thank you very much, Mr. Kennedy.

I expressed to Mr. Neal before he left my dismay that I didn't have an opportunity to question the previous witness that he had dismissed. But, having said that, let me thank you for the opportunity and thank the panel that is before us.

May I just also preface my remarks by indicating how happy we are in the Baltimore area and in the State of Maryland at the work of Dale Brown who has been at this for a long time, who has done an excellent job, and who really has, by virtue of the quality of her work and the work of others, set an example for the entire country.

The late Mickey Leland and I convened hearings in Baltimore in 1987 to talk about the idea of a card, and we didn't know it was going to be an Independence Card or anything else. We took testimony, and that testimony has languished for a long time here in the archives of the House, which pointed out early in that time how people wanted something like that, how many of the agencies started with a system and how if, in fact, it were ever enacted it could prove to be beneficial.

And so, in hindsight, we look at that, and I thank you, Ms. Brown, for your work in that area, and we all in the State of Maryland are very happy that we have been able to conduct this in the way we have.

One of the things the previous witness mentioned that I thought was a bit alarming was that he stated that estimated losses that reflect the abuse of the EBT system ran somewhere between $120 and $100 million a year. It is a rather broad range, to say the least, and the witness did not in any way take any time to say what they were based on. I think they are a bit misleading.

I don't think, also, that those abuses are any different in scale than the abuses that the people at the American Express Co., find every year or those who work for Visa or Master Card. In fact, I think they are less.

And one of the questions, Mr. Chairman, I am submitting to him in writing is to explain the estimates and then give me some sort of cost comparison. I don't want it to be suggested and then later gleaned from these hearings that abuse with the EBT system is outscaling these other operations.

Also, in the State of Maryland, the EBT system has actually enhanced the ability to detect fraud and has curbed benefit fraud by creating an electronic trail, and the only thing better than a paper trail is an electronic one. When you consider that 170,000 households or thereabouts, which equals probably about 99 percent, I think, Ms. Brown, of all of the recipients using this card, I think that is phenomenal. I think that says a great deal about what we can do if, in fact, we are prepared to move ahead with this.

Now, the issue about the application of regulation E is one that I know this subcommittee is going to have to resolve at some point in time. I understand the position of the State saying that it is an unfunded mandate. I understand the position of consumer groups saying that this should not be a double standard of treatment for individuals just because they are receiving public benefits. And maybe, just maybe, that the way we reconcile that is to work out a formula where there is State-Federal liability sharing. And I don't know how we do that or what the numbers are going to be, but we have to resolve that question. Otherwise, we are going to be right back at hearings like this trying to deal with it.

Mr. Fields, who had to leave earlier, raised the question some time ago about point-of-sale terminals. I know that it might be instructive to look at the Maryland model where a list of those terminals are provided to individuals who start using the card so that they know exactly where they are. Which gets us around the problem of trying to develop at every mom and pop operation at least a terminal, because that is not something we are going to be able to do.

But I am going to share that with Mr. Fields, because I think that goes to the heart of his question, which was very well-intentioned.

The issue of transaction fees keeps coming up, and I say this particularly with the members of the banking community here that I recognize that at some point in time there is a saturation level and if you keep doing something and doing it and doing it that you have to have a fee somewhere involved. The question is what becomes the ceiling or the break point.

Now, the average in Maryland, I think, is about four uses a month for persons who have the card. Many banks now have a ceiling of six uses for their customers, some have five, some have seven, some have four where you exceed that and then the fees kick in.

And I think we need to look at that, because, clearly, banks are going to have to find a way to deal with the issue of banking and the costs that are involved. At the same time, we have got to make sure that consumers have the ability to take advantage of the system and that there is a period of use before any fees do, in fact, kick in.

Now, one thing, Mr. Chairman, and I will begin to yield back, that troubles me a bit is the suggestion—the inherent suggestion that this is going to create a growth industry for criminal activity, and so we can't put these cards out in low-income communities because criminals are going to see it as an opportunity and create a growth industry.

I don't think that that is any different than the mail fraud and the wire fraud that we see in this country, the credit card fraud, what has now become the cellular telephone fraud, or the computer fraud. People are always going to try to find a way to beat the system.

But it is a bit disingenuous for some to make the argument that in this case, just because these individuals get a card, that, oh, my God, criminals are going to benefit in some sort of way. We just have to, I think, be diligent in our efforts to try to get around that.

And, again, you know, an electronic trail is certainly better than what we have had in the past.

Now, the formula that you, Mr. Chairman, and I and others have worked on for some time—which is not Einstein's formula but rather one that has grown out of a great deal of observation regarding check cashing—is that the absence of banks equal the growth of check-cashing operations.

Floyd Stoner, who was a good representative of your industry, Mr. Hodge, and someone who I consider to be a friend, is someone that has heard me say so many times—and, Mr. Silverman, I am glad you are here today to hear it—because I honestly believe that when you take banks out of communities you create a void, and check-cashing systems come in, you know, and the community is left with a cloud of dust, a mighty hi ho, Silver, and an ATM machine, and that ATM machine cannot provide services.

And then the check-cashing operation opens up 24 hours a day, big green neon sign out, very bright, on the corner, and people, because they don't have choices—and Mr. Silverman, I don't know if two-thirds of all of your people deal with a bank. But I know that the people who walk into check-cashing operations feel like they don't have anywhere else to go.

And why I am so difficult and so hard on the operations is because in your testimony you said, we cash checks without funds and without deposits, and that makes us different from banks. But you also charge an exorbitant amount of money in the process of doing it.

A recent study that we have here, that I know Ms. Velazquez and others have looked at in her State of New York and elsewhere, shows that people pay on an average of $250 a year to a check-cashing operation where they would have paid an average of $70 a year to a bank. So I think that when we talk about these operations, let's not give the impression that people just love them and want them. It is out of necessity because there is nothing there.

And the fact that there is legislation pending in this Congress to regulate check-cashing operations, I think is significant, and I would hope it would send a warning signal to those in your industry that in order to prevent this regulation let's try to find a way to actually work with the legislators and the communities and the people most involved, because once there is government intervention and government regulations, it is going to be hard, sir, to ever change it from that point on.

I have far exceeded my time, Mr. Chairman. And, Mrs. Velazquez, that democracy is still alive and well. And I see green also, although they tell me it is red, and I will yield back.

Chairman KENNEDY. So nice of you to yield back so much time there, Mr. Mfume.

Ms. Velazquez.

Ms. VELAZQUEZ. Thank you, Mr. Chairman.

Let me start by saying that I have a great deal of respect for Chairman Neal, but I totally disagree with the statement he made about Mr. Silverman's fascinating testimony. I rather found it very distressing. It presented a picture that is totally different from what is going on in my district.

Mr. Hodge, I am frankly, shocked by some of your testimony and the testimony of your colleagues in the Community Bankers Association. Today you claim that low-cost banking accounts are readily available everywhere. You also suggest that low-income residents prefer to pay more to use check-cashing outlets than to pay less and use low-cost bank accounts.

Ms. Marie Mann of Crestar Bank, representing the Consumer Banking Association, testified to the same effect this April before the Consumer Credit Subcommittee.

I would like to ask you, Mr. Hodge, do you really contend that my constituents have a choice between low-cost, full-service neighborhood banking and high-cost check cashing, and choose to pay more?

Mr. HODGE. Well, let me default back to my experience at First Union and, of course, we are not in your area. But our low-cost basic banking product—the price ranges from $3 to $4 a month for the service, and there is a certain number of checks that can be written without additional charge.

As I said in my testimony, our institution has over 300,000—actually, 357,000—of those accounts at the present time. So we feel like we do offer a product that helps to meet the needs of the low-income individuals. It does provide basic banking services for those individuals.

Certainly, some of the customers in areas that First Union serves, communities that First Union serves still choose to use a check-cashing service, and as I——

Ms. VELAZQUEZ. Mr. Hodge, you are here also representing the Community Bankers Association.

Mr. HODGE. That is correct.

Ms. VELAZQUEZ. So you are competent to testify on more than your personal experience on your own bank.

Mr. HODGE. Well, again, I am saying what I am familiar with. And as far as the industry as a whole, I don't know the demographics of the whole Nation as well as I know the demographics of the marketplace that we are in.

Ms. VELAZQUEZ. How many of the financial institutions that responded to your survey operate branches in Bushwick and Williamsburg in New York City? Do you know?

Mr. HODGE. One of my colleagues may know the answer to that. We will have to get that information and get it back to you. I don't know the answer.

Ms. VELAZQUEZ. How many offer low-cost, full-service banking?

Mr. HODGE. I believe the number of the respondents to the survey was 95 percent of the banks that responded.

Ms. VELAZQUEZ. Let's talk about your survey. I am concerned about how numbers and figures can be used to give a distorting picture of reality. Isn't it true that your findings are based upon responses from only 21 percent of Consumer Bank Association members? What about the rest of your members?

Mr. HODGE. Well, that is true, but the ones that responded are typically the larger banks like First Union which have the widest networks and are the largest providers of services. So it did include—the respondents did include representation from all geographic areas and so the 21 percent we felt was representative.

Ms. VELAZQUEZ. It is. You think that it is representative, 21 percent.

Mr. HODGE. Yes.

Ms. VELAZQUEZ. I disagree with you. You come here and you talk about 95 percent of all institutions, some who offer basic banking accounts, and then you present all these figures, and it sounds like everything is all right, that in poor communities the banks are offering financial services, and that is not the case.

The public advocate from New York City conducted a study that showed a different reality, and that is the reason why check-cashing outlets have come into our communities and charge high fees for the services that they are providing in our communities.

I totally disagree. I think that is misleading.

Mr. Chairman, I would like to include for the record the survey conducted by the public advocate from New York City.

Chairman KENNEDY. Of course. Without objection, it is so ordered.

[The information referred to can be found in the appendix.]

I would agree with the gentlelady's analysis. It just seems to me that if you take only the institutions that respond to a survey of this type, obviously, you are going to start with a group of institutions that would want to respond. Generally, institutions don't respond to things that they think they are going to—that is going to generate a negative reaction from those that are going to read the report.

So I think you are culling it in a way that would end up giving you a very different impression than if all of the institutions responded, number one; and, number two, the fact that the 21 percent in general responded in that form does not necessarily reflect what the institution's experience in specific areas' history might be.

So while I assume you are not intentionally misrepresenting the results of that survey, I think that probably the methodology that was utilized in the survey does not give an accurate portrayal of what actually takes place in the real world.

Ms. VELAZQUEZ. I yield back the balance of my time, Mr. Chairman.

Chairman KENNEDY. I appreciate the gentlelady yielding.

Our final questioner today is Ms. Roybal-Allard from California.

Ms. ROYBAL-ALLARD. Thank you, Mr. Chairman.

My questioning was going to be along the line of Ms. Velazquez', and what I would suggest—that when, Mr. Hodge, someone representing the Community Bankers Association or yourself, the next time you are before this subcommittee, that you preface your remarks, saying that you only can speak for 21 percent of those that responded and make it very clear that you are not painting this rosy picture which, in fact, does not exist.

Ms. Velazquez mentioned a study in New York City. I would like to point out to you a study that was commissioned by the city of Los Angeles which found that 91 percent of Los Angeles banking institutions do not allow nondepositors to cash government benefit checks and fewer than 50 percent offer low-cost checking accounts to the nonelderly poor.

So you have two examples of two major cities in this country that have reports refuting the picture that you are painting—that every-

thing is just rosy and wonderful and that banks are doing everything they can.

Second, I would like to point out to you in response to the question that you didn't know why people and customers were going to these check-cashing outlets. Let me suggest that perhaps one of the reasons is that check-cashing outlets have become more customer-friendly and are meeting the needs of particular communities.

For example, in the communities that I represent, they provide bilingual services and are open during weekends. Because many people work on Saturdays, they are also open during the evenings. My suggestion is that if banks were to look at communities and make their services available in a way that meet the needs of that particular community, perhaps you would see more people going to use the services of the banks.

However, I agree with Mr. Mfume, Mr. Silverman, that these check-cashing outlets aren't the rosy picture that you are painting either, and that, in fact, in my own community there are those that charge as much as 12 percent for cashing a check.

So there are definitely problems that need to be looked at in that particular area. I agree that we do need to have additional hearings and some regulation in that area.

Mrs. Brown, you said that one of the benefits of the EBTs was the fact that customers didn't have to carry large amounts of money.

However, when they use the EBTs to pay their rent, they need to take out that money. In Los Angeles that means that for a one-bedroom apartment, they are carrying around at least $600. So, although it may help them to some degree, the reality is, without basic banking services, these people are still put at risk because they have to carry amounts of money to pay their rent or other kinds of bills.

Ms. BROWN. What we have done in the State of Maryland recently—let's see, in March, we made an agreement with the gas and electric company so that clients are able to take the Independence Card into the gas and electric company and debit the cash account to pay the bill.

On June 1 of this year, I made an agreement with the housing authority in Baltimore City to pilot test rent debits. And it is going very, very well. As of September 1, we will be up statewide in the housing authorities throughout the State. So we have worked on that.

In addition, we are in the farmer's market, and we are testing a cellular unit. So what I have done is tried to address all of the areas so that the clients will not have to carry that cash around, and it is working very, very well.

Ms. ROYBAL-ALLARD. Going back to regulation E, you said that it could ruin the program and that you estimate that there is going to be fraud from 1 to 5 percent?

Ms. BROWN. That is what we think the current fraud rate is. The current fraud rate is somewhere around 1 percent. But we think with regulation E it may encourage people to say they lost their cards, lost the PIN number, and someone access the benefits.

Ms. ROYBAL-ALLARD. But, Ms. Brown, with all due respect, you are making an assumption that people who are on AFDC Social Security, will lie and cannot be trusted.

Ms. BROWN. No, I didn't mean to make that assumption at all.

Ms. ROYBAL-ALLARD. Then why assume that regulation E is going to encourage this kind of lying by these customers? Why more so with them than, as Mr. Mfume said, with American Express customers or anybody else?

Ms. BROWN. We were looking at some past projections. As regulations change in the Food Stamp and AFDC Program, that there was an increase—for example, we have some emergency assistance that we give, and the clients are eligible for two emergency assistance checks a year, and what we found that at certain times of year—certain times of year, when school opened and when Christmas came, that that emergency assistance request increased. So we are basing it on an assumption, actually, but we tend to think——

Ms. ROYBAL-ALLARD. But it is an assumption that is not based on fact.

Ms. BROWN. But we have the data.

Ms. ROYBAL-ALLARD. So the assumption is also that regulation E will kill the program. It is not based on any real fact.

Ms. BROWN. Right. What we are doing now is looking at the number of cards that we are replacing in the State of Maryland and looking at the amount of benefits that are on the system at the time, trying to come up with some real, live data so that we can try to project. It is very hard to project because we have no past experience in this.

Ms. ROYBAL-ALLARD. Mr. Chairman, there is another witness that would like to respond. Is that all right?

Chairman KENNEDY. Sure, of course.

Michelle.

Ms. MEIER. I would only like to point out what I think is obvious from this dialog, which is that there isn't any empirical data from the State-run EBT pilots to date on losses because they simply haven't complied with reg E. There is empirical data from the federally administered Social Security EBT pilot in Houston, and I would like to submit for the record the loss experience, which is very, very minuscule for the first year of that program.

[The material referred to can be found in the appendix.]

Finally, when the Fed provided this 3-year window period, which is a delay in implementation of the application of reg E to EBT at the State's request, it was with the expectation and representations from the Federal EBT Steering Committee that States were going to conduct pilots implementing reg E during the 3-year period to get some empirical data.

At a conference I was at a couple of months ago, one State represented on behalf of at least 25 other States that they refused to participate in any pilots, because their only goal was to kill reg E on the Hill. That has dismayed me, because, I think, we need some empirical data and hope that we will see some more constructive behavior on the part of the States in getting that empirical data.

Ms. ROYBAL-ALLARD. Thank you. Mr. Chairman, could I have unanimous consent also to submit this study of Los Angeles.

Ms. BROWN. Could I just add——

Chairman KENNEDY. Certainly. We will have to keep this moving along, Ms. Brown. But let me recognize Mr. Klein for 5 minutes.

Mr. KLEIN. Thank you very much, Mr. Chairman.

Ms. Randall, let me just take this opportunity to congratulate you and the New Jersey department for its leadership in this area, and I particularly compliment the department for the program that extends checking account services to just about anybody who wishes to have them. I think that is a very, very important thing.

I notice in your prepared statement, you made the comment that the Comptroller of the Currency felt that there was preemption with regard to federally chartered institutions and that therefore federally chartered institutions were not required to comply with New Jersey's law.

I have got a couple of questions about that. First of all, as a matter of practice, have the federally chartered institutions in New Jersey substantially complied with the State law?

Ms. RANDALL. Yes, they have, Congressman, which is one reason why we in the State have not officially appealed or challenged the interpretive rule 572.

Mr. KLEIN. Is there anything that you think we should or could do legislatively to ensure that de facto compliance becomes legal compliance?

Ms. RANDALL. Well, I briefly alluded in my statement as well to the fact that the new law that you just passed, 1994 Interstate Banking law, does appear to assist us in the State of New Jersey, because the conference report does allude to the intention of the Congress to allow basic banking laws in the States to stand, and not be preempted.

So with that in hand, we will be going back to the OCC and I would be pleased to keep you and the subcommittee informed of our efforts to have that reconsideration result in an affirmative statement that our State basic banking laws are not preempted.

Mr. KLEIN. Now, I think you also suggested in your prepared statement that it might be appropriate to have Federal laws regarding basic checking accounts. Is it your thought that with respect to those Federal laws that there should be uniformity between the States and preemption?

Ms. RANDALL. If the Congress is so inclined, I certainly, would encourage you to look at the New Jersey success story. I am inclined, given the success we have had in New Jersey, to see if perhaps the other States cannot follow suit, and if the results are very good, there may not be the need for you to enact a nationwide uniform law, but it seems to me that the experience thus far in New Jersey has been excellent, and I understand, I have learned today that New York is also contemplating its own similar legislation.

And, frankly, there is a little bit of latitude that the States do have when they act, of course, as independent entities. The latitude I am referring to is the actual nuts and bolts of the law—what will be the minimum deposit amount, what will be the maximum per month charge, what will be the number of checks that can be written per month without any extra charge. In our law, it is eight per month. Those kinds of details, when left to the State regulators to look at, may actually result in a law that is very much tailored to

the needs and the demographics of that State and the depositories that do business in that State.

Mr. KLEIN. You know, I am still concerned about that little kid who lives in my town, Michael Carloni, with his $10 roll of quarters. Isn't there something that we can do about requiring the banks to take those deposits from minors, from kids without imposing a charge?

Ms. RANDALL. I think there is something that could be done, and it probably would not be very difficult for States to focus on those kinds of issues, because again, you are talking about something which is a very minimal requirement. You might want to talk to the Girl Scout that the chairman knows as well.

Mr. KLEIN. Very good. Do you have a suggestion? Or perhaps the two of us, we can discuss it and see if we can come up with something that would make some sense and give kids the incentive to continue their savings practices. You know, a dime to a 12-year-old kid can still mean a lot.

Ms. RANDALL. Yes. I would be pleased to submit some suggestions. I think, obviously, the chairman and this subcommittee are interested in really encouraging from the very beginning among our young people a really—a good sense of educated and informed savings practices, and I would be pleased to submit some suggestions to you and the subcommittee.

Mr. KLEIN. Well, thank you very much.

And thank you, Mr. Chairman.

Chairman KENNEDY. Thank you, Mr. Klein.

As the father of two 13-year-olds, a dime for 12-year-olds is a thing of the past, I am afraid.

Mr. KLEIN. Joe, you just haven't trained your kids right.

Chairman KENNEDY. Evidently. But I just want to make a couple of quick points and then I want to turn over to Mr. Mfume for some additional questions.

I think that there is an enormous difference between the testimony that Ms. Randall gave us in terms of the extent of basic banking services prior to her leadership and to the changes that took place in New Jersey. You are saying that you have a survey that says 95 percent. I believe Mr. Hodge was implementing basic banking services. As I understand, Ms. Randall was saying 25 percent prior to the program for implementing basic banking services. So I just think it is important to bring out the fact that there is an enormous difference in terms of what the perception is.

I would hope, Ms. Randall, that my subcommittee in particular is very, very interested in the whole issue of basic banking services. As I mentioned, the city of Boston just implemented a—the State of Massachusetts, I should say—just implemented a new program involving 132 institutions providing those banking services.

I think it will be very interesting to, perhaps sometime in the fall, to get together with the Republican leadership as well and see if we might be able to try and fashion a way of creating a new program on a voluntary basis for other States to emulate the program that New Jersey has already implemented.

I don't know why other States aren't doing it. As you pointed out, we have just provided them interstate powers. Mr. Mfume and I worked very hard to try to include basic banking services on inter-

state; we were unsuccessful in trying to force the issue. I thought it was a major setback in terms of the precedent that it sets for providing powers to institutions without asking them to look out for the poor at the same time.

But in any event, I would be very interested in working with you in trying to see what ideas, and, Ms. Brown, what concepts and experiences that have you had in Maryland in terms of trying to establish a nationwide basic banking program for our people, and I look forward to working with Mr. Mfume to maybe conduct those hearings sometime in the fall.

I would like to turn it over—whatever time Mr. Mfume may—did I just use 5 minutes? Who is working the clock over there? All right. So anyway, we will give Mr. Mfume 5 new minutes.

Mr. MFUME. Thank you, Mr. Chairman.

Mr. Hodge, I guess I ought to say to you that a concern directly that banks are something that just comes out of this subcommittee, it is the nature of the subcommittee, because it is the Banking Committee, and because also banks happen to be a big target. So don't, particularly, take it personally.

I do want to say, however, that there continues to be fundamental problems, not just with banks, our perception of banks, relationship with banks in our society. Even last week the *Wall Street Journal* noted in an article, it talked about not only the neglect in minority areas, but it actually compared one industry against another. In this instance, the headline read, and I quote, "Some mortgage firms neglect black areas more than banks do."

So it seems now that it is not an issue of neglect, but rather who is doing it more, and that is why there is an ongoing concern about people who are directly involved and those who may be on the periphery in terms of issues concerning financial institutions.

Having said that, I would like, Ms. Brown, if you could give us an idea of what the bank's role in the Maryland system factually is. Are they allowed to earn interest on the money that is deposited each month? How much money is it?

Ms. BROWN. It is $57 million a month.

Mr. MFUME. And during that period or any part thereof, are the banks that are participating in this program allowed to earn interest?

Ms. BROWN. It is with the State treasury.

Mr. MFUME. So the money goes to the State.

Ms. BROWN. Yes.

Mr. MFUME. So the bank simply serves as a conduit?

Ms. BROWN. Yes.

Mr. MFUME. What do banks get out of it? Let me ask you that way.

Ms. BROWN. I am sure that banks do get something out of it. Maryland National Bank is the host for the State of Maryland, and Norwest is the bank for Deluxe Data, who is our vendor. So I am sure there is some float made on it.

Mr. MFUME. But it is the State treasury that is getting the bulk of the interest?

Ms. BROWN. Yes.

Mr. MFUME. Well, that is interesting then. Because if there is a loss, then it would seem to some extent there would have to be a State liability or State exposure to some share of it.

Ms. BROWN. Let's see. I am not real, real familiar with the transfer of money, but there is a letter of credit. So there is not really a lot of cash that is sitting. Deluxe Data actually, which is our vendor, actually puts the money up front and then they bill the State for it.

Mr. MFUME. So are we giving banks CRA credit for participating? Are they just doing this because we have asked them to do it?

Ms. BROWN. Deluxe did all of that negotiation. I am not sure. I will get back to you on that.

Mr. MFUME. I ask because I am just trying to get an idea of since we are banking on the banks a bit whether or not to some extent they may be participating in a service and benefiting. But since of the $55 million, the interest is going into the State treasury, my question was, what are they getting out of it?

Ms. BROWN. They are getting transaction fees.

Mr. MFUME. They are getting transaction fees if they break a certain level, or is it——

Ms. BROWN. Per transaction.

Mr. MFUME. It is every transaction, so there is not a ceiling then?

Ms. BROWN. No. There is a transaction fee.

Mr. MFUME. I see. Has anybody looked at whether or not in this instance it might be more beneficial to have a ceiling, or as opposed to that, allowing banks to earn interest during the month or any part of it?

Ms. BROWN. We are looking at the possibility now. We are discussing it.

Mr. MFUME. OK. I am sorry. You wanted to respond to that also?

Ms. MEIER. Yes. I was just going to say, but then it came up, that the major impetus and benefit to the banking system is the ATM transaction fees. And we, in talking to the Federal EBT Task Force have asked them to hold back in making any policy conclusions on whether to impose transaction costs on recipients, knowing that that is under consideration. We need more data.

We have major concerns about imposing transaction fees on assistance recipients. We think that the government should be looking at getting some discounts on those ATM per transaction fees, which we think are very high.

Mr. MFUME. How much are they?

Ms. MEIER. They can go up to $1 per transaction and even more. And you may know that the Justice Department outside the EBT context has raised monopolistic pricing challenges to the private sector's ATM transaction charges.

Mr. MFUME. Are the transaction fees the same as they would be for a regular consumer of banking services?

Ms. MEIER. That is my understanding. Although I believe in one pilot in New Mexico, in Albuquerque, the banking system, those parts of the industry that own the ATM network, has provided discounts. Because they perceived EBT as a win/win, that they were getting so much new volume through EBT participation in the commercial network, that it was worth it to them to offer steep dis-

counts. We would encourage the government to strongly negotiate for discounts, rather than assume that this high pricing is just going to get passed to the recipient.

Mr. MFUME. OK. Mr. Silverman.

Mr. SILVERMAN. A little more current information on the EBT transaction fee. The EBT Task Force right now is in a position with the State of Texas where they are allowing a first transaction to be at no cost to the recipient, and then any transactions after that, they are allowing a $1 per transaction fee to be passed on the recipient, it was decided several days ago.

One of the other issues about reg E liability is right now the reg E liability, the cost of fraud in the system is being borne by private sector industry. When someone comes in on a cash disbursement and fraudulently obtains that cash through a check or through an electronic system, the private sector is absorbing that cost.

Under the EBT system now, the proposal, that cost is being shifted back to government, and at some point, whether it is the State or the Fed, that cost has to be absorbed. And there is tremendous—and there is documentation that we can provide to the subcommittee substantiating the present-day cost of fraud in the EBT—in the manual system.

Mr. MFUME. That is why I said we are going to be back here again and again if we don't resolve that. I don't know if it is cost-sharing or what.

Mr. Chairman, I just have two questions to Ms. Randall. And you have been very kind and gracious with your time.

Ms. Randall, you said in December 1992, New Jersey became the first State in the Nation to offer lifeline checking accounts, banks and credit unions, and that there was a survey conducted for the first 4 months of 1993 to determine compliance. Has there been any measurement since that first period in 1993?

Ms. RANDALL. No, there has not. I will say that I have not received any applications for exemption, however, based on hardship. In other words, none of the financial institutions have come to me and said, please, commissioner, I am losing money by having to offer this account; please exempt me from the legal requirement. And that power does exist, but I have received no requests for exemption.

Mr. MFUME. And finally, the law as I understand it allows the department of banking to give an exemption to a bank that can prove it is losing money, and you are saying that there have been none that have come to you to say they have lost money as a result of this.

Ms. RANDALL. Correct.

Mr. MFUME. And none requesting an exemption.

Ms. RANDALL. Correct.

Mr. MFUME. OK.

Thank you very much, Mr. Chairman. I appreciate the time.

Chairman KENNEDY. You bet.

Ms. Roybal-Allard.

Ms. ROYBAL-ALLARD. Mr. Silverman, your industry is a $1 million industry, billion dollars industry? How much money is involved?

Mr. SILVERMAN. Our association represents over 4,500 check-cashing locations throughout the country. Specific dollars I can provide to you.

Ms. ROYBAL-ALLARD. My point is that it is a lucrative business.

Mr. SILVERMAN. It is a service that has expanded throughout the country because of people's choice of dealing with us.

Ms. ROYBAL-ALLARD. But the people who are in your industry, they are making money.

Mr. SILVERMAN. I would assume most businesses make money.

Ms. ROYBAL-ALLARD. What I am leading up to is not directed to your industry. My question is for Mr. Hodge. I am trying to understand why banks continue to cry and whine and say they are going to be driven out of business if we require them to offer basic checking accounts when check-cashing outlets are in fact in a lucrative business, they are making money. They keep saying they are going to lose money, they have all of these problems, and yet we are finding that: First, as a result of the bank industry's refusal to provide these services, a whole new industry has been created, and; second, where banks have been willing to come into communities, they are successful. For example, Union Bank in my district which opened 2 weeks ago offers basic check-cashing services in addition to checking and savings accounts. They have well over 300 customers and are expanding those services because they have been so successful.

My question is, what is the basis for banks to continue saying that they will be driven out of business or the industry will be ruined if they are required to provide basic checking services.

Mr. HODGE. I think our industry, like any industry, responds to the demands in the marketplace and it is market driven, and as banks learn to understand through their outreach efforts and in working in concert with community organizations, additional products and services that need to be delivered, those products and services will in fact be delivered.

And again, I can speak only on a personal basis for my own institution, but we do provide check-cashing services at a very nominal fee, government checks for noncustomers, and we also cash checks that are drawn on our institution for any noncustomer. Again, we charge a small fee for that. But, you know, we are sensitive to the needs, we try to be sensitive to the needs of particularly the low-income communities. I mean, that is my job, that is what I am paid to do.

Ms. ROYBAL-ALLARD. I would like to associate myself with the comments that Mr. Mfume said, that we are not attacking you personally, but unfortunately, there are many banks throughout this country who aren't doing some of the things that you are doing and that are not doing, for example, what Union Bank in my district is doing, and is leaving many, many people without just basic lifeline services.

Mr. HODGE. I would say that my company, First Union Bank, probably has some size advantage against a lot of the other players in the market, and it is perhaps a fear of losing money on providing those types of services, and our experience has been that you are not losing money on those types of services.

Ms. ROYBAL-ALLARD. Mr. Silverman.

Mr. SILVERMAN. I would like to respond real quickly. I have stores in California. I am competing very heavily, against Union Bank since they entered the check-cashing market. Their check-cashing rates right now for their noncustomers are higher than the rates that we are presently charging at our locations and have been consistently charging.

Ms. ROYBAL-ALLARD. Can you tell me what you are charging?

Mr. SILVERMAN. About 1.2 percent. I believe they are at 1½ to 2 percent. In addition to that, Wells Fargo Bank has now entered the check-cashing arena and we are competing very heavily with them also.

Ms. ROYBAL-ALLARD. Do you know what they are offering?

Mr. SILVERMAN. No, I don't, but I can provide that to you.

In addition, reference was made to a high check-cashing fee of, I believe, 12 percent in one of your districts. Right now the State of California, through an endorsement of our national association on a Federal level, believe that the States on a State-by-State basis should deal with registration and regulation of our industry.

California has chosen to deal with our industry through a rate cap provision, and that 12 percent that you have quoted is not allowed under the rate caps and should be reported to the regulatory body in your State. Thank you.

Chairman KENNEDY. Thank you.

There being no further questions, on behalf of both subcommittees, I want to express my appreciation to all of the witnesses who shared their stories and views with us today.

I would like to ask unanimous consent that the record be kept open for a period of 4 weeks from today so that additional views may be submitted.

Hearing no objection, so ordered. And the subcommittees are in recess.

[Whereupon, at 1:32 p.m., the hearing was adjourned.]

APPENDIX

August 11, 1994

JOSEPH P. KENNEDY II, MASSACHUSETTS CHAIRMAN
HENRY B. GONZALEZ, TEXAS
LARRY LAROCCO, IDAHO
LUIS V. GUTIERREZ, ILLINOIS
BOBBY L. RUSH, ILLINOIS
LUCILLE ROYBAL-ALLARD, CALIFORNIA
THOMAS M. BARRETT, WISCONSIN
ELIZABETH FURSE, OREGON
NYDIA M. VELAZQUEZ, NEW YORK
ALBERT R. WYNN, MARYLAND
CLEO FIELDS, LOUISIANA
MELVIN WATT, NORTH CAROLINA
MAURICE HINCHEY, NEW YORK
PAUL E. KANJORSKI, PENNSYLVANIA
FLOYD H. FLAKE, NEW YORK
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ALFRED A. McCANDLESS, CALIFORNIA
MICHAEL CASTLE, DELAWARE
PETER KING, NEW YORK
DEBORAH PRYCE, OHIO
JOHN LINDER, GEORGIA
JOE KNOLLENBERG, MICHIGAN
DOUG BEREUTER, NEBRASKA
CRAIG THOMAS, WYOMING
RICK LAZIO, NEW YORK
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SUBCOMMITTEE ON CONSUMER CREDIT AND INSURANCE

JOINT HEARING ON INCREASING ACCESS OF LOW- AND MODERATE-INCOME AMERICANS TO FINANCIAL SERVICES
AUGUST 11, 1994

IN THE COURSE OF THE HEALTH CARE DEBATE, WE HAVE COME TO KNOW THAT AN ESTIMATED 37 MILLION PEOPLE LACK HEALTH INSURANCE, A SHAMEFUL FIGURE.

THERE IS ANOTHER SHAMEFUL FIGURE THAT HAS RECEIVED FAR LESS PUBLICITY, BUT IS PARTICULARLY RELEVANT TO TODAY'S HEARING: NEARLY 42 MILLION PERSONS -- ABOUT 1 OUT OF EVERY 5 AMERICANS -- HAVE NO BANK ACCOUNT. THAT MUST CHANGE. AMERICANS HAVE A RIGHT TO BASIC HEALTH CARE. THEY ALSO HAVE A RIGHT TO BASIC FINANCIAL SERVICES. BECAUSE WITHOUT THOSE SERVICES, ORDINARY AMERICANS HAVE NO WAY TO SAVE AND OBTAIN THE CREDIT THEY NEED TO GRAB THE FIRST RUNG ON THE LADDER OF ECONOMIC OPPORTUNITY.

IN APRIL OF THIS YEAR, THE CONSUMER CREDIT AND INSURANCE SUBCOMMITTEE HEARD TESTIMONY ABOUT THE LACK OF BANKING SERVICES IN LOW AND MODERATE INCOME AREAS. WE LEARNED THAT BANKS OFTEN AVOID THESE AREAS, CEDING THE MARKET TO CHECK CASHING OPERATIONS AND PAWN BROKERS -- THE "FRINGE BANKERS."

WITH FRINGE BANKERS, POOR AND WORKING FAMILIES EITHER CAN'T FIND BASIC SERVICES LIKE SAVINGS AND CHECKING ACCOUNTS, OR PAY THROUGH THE NOSE FOR THE SERVICES THEY DO FIND. THEY PAY ENORMOUS FEES SIMPLY TO CASH A GOVERNMENT CHECK. WHEN THEY OBTAIN A "PAYDAY LOAN" FROM A CHECK CASHER TO MEET URGENT SHORT-TERM NEEDS, THEY MAY BE CHARGED AN ANNUAL PERCENTAGE RATE OF UP TO 1,000 PER CENT. ONE STUDY SHOWS THAT A PERSON EARNING $17,000 PER YEAR WILL PAY $200 TO $250 PER YEAR TO CASH CHECKS AND GET MONEY ORDERS. THOSE SAME SERVICES WOULD COST $70 OR LESS AT A BANK OR THRIFT.

THE POOR SHOULDN'T HAVE TO PAY MORE. THEY DESERVE BASIC, AFFORDABLE BANKING SERVICES. BANKS AND THRIFTS ENJOY TREMENDOUS COMPETITIVE ADVANTAGES COURTESY OF THE AMERICAN TAXPAYER -- ADVANTAGES LIKE DEPOSIT INSURANCE, ACCESS TO THE FED DISCOUNT WINDOW, AND TAXPAYER BAILOUTS WHEN THEIR OWN INSURANCE FUNDS GO BUST. AND LET ME REMIND MY FRIENDS IN THE BANKING COMMUNITY THAT SOON THEIR INSTITUTIONS WILL RECEIVE THE PRIVILEGE OF FULL INTERSTATE BANKING AND BRANCHING POWERS. IS IT TOO MUCH TO ASK THOSE INSTITUTIONS TO PROVIDE THOSE SAME TAXPAYERS WITH THE CHANCE TO HAVE SIMPLE, LOW-COST CHECKING AND SAVINGS ACCOUNTS? I DON'T THINK IT IS.

NEITHER DO A GROWING NUMBER OF LENDERS. IN MASSACHUSETTS, OVER 130 BANKS, REPRESENTING OVER 80% OF THE INDUSTRY'S RETAIL MARKET SHARE, HAVE AGREED TO PROVIDE LOW-COST SAVINGS AND CHECKING ACCOUNTS. BAYBANK, FOR INSTANCE, HAS OPENED 6 BRANCHES AND 30 ATM MACHINES IN BOSTON'S POORER NEIGHBORHOODS. AND IT OFFERS A LOW-COST CHECKING ACCOUNT THAT EVEN WELFARE RECIPIENTS CAN AFFORD.

WHAT THESE AND OTHER LENDERS HAVE LEARNED IS THAT BASIC BANKING IS NOT SOMETHING TO BE FEARED. IT'S JUST COMMON SENSE. IT IS A WAY TO TARGET AN UNTAPPED MARKET, MAKE A RESPECTABLE PROFIT, AND ATTRACT NEW CUSTOMERS FOR LOANS, CREDIT CARDS, AND OTHER MONEY-MAKING SERVICES.

NEW JERSEY STATE LAW REQUIRES BANKS TO OFFER A BASIC, LOW COST ACCOUNT. TODAY WE WILL HEAR FROM THAT STATE'S BANKING COMMISSIONER, ELIZABETH RANDALL. SHE WILL TELL US THAT THIS LAW HAS NOT CAUSED THE COLLAPSE OF THE BANKING INDUSTRY IN HER STATE. THAT MAY COME AS A SURPRISE TO SOME. BUT IT PROVES THAT BASIC BANKING IS AN IDEA WHOSE TIME HAS COME. IF IT WORKS IN NEW JERSEY, IT CAN WORK ON THE FEDERAL LEVEL. WE WEREN'T ABLE TO GET IT IN THE INTERSTATE BRANCHING BILL, BUT WE'LL KEEP TRYING. I WISH YOU WERE GOING TO BE AROUND TO HELP US, CHAIRMAN NEAL.

WE WILL ALSO HEAR FROM MR. GERALD MURPHY OF THE DEPARTMENT OF THE TREASURY. HE WILL DESCRIBE THE IMPORTANT EFFORT INITIATED BY VICE PRESIDENT GORE TO DELIVER $111 BILLION IN FEDERAL AND STATE GOVERNMENT BENEFITS ELECTRONICALLY BY THE END OF THIS CENTURY.

THIS INITIATIVE COULD PROVIDE TREMENDOUS BENEFITS TO CONSUMERS AS WELL AS STATE AND LOCAL GOVERNMENTS. BUT WE MUST PROCEED WITH CAUTION. IF THE FEDERAL GOVERNMENT IS GOING TO TRY TO SEND ITS SOCIAL SECURITY AND PENSION AND WELFARE CHECKS ELECTRONICALLY, THEN THOSE WHO RECEIVE THESE BENEFITS MUST HAVE THE SAME BASIC PROTECTION FROM LIABILITY FOR LOST FUNDS AS OTHER CONSUMERS DO. I DON'T OFTEN FIND MYSELF ON THE SAME SIDE OF AN ISSUE AS FED CHAIRMAN GREENSPAN AND GOVERNOR LINDSAY. BUT ON THIS ISSUE I AGREE WITH THEM: REGULATION E SHOULD -- AND IN 3 YEARS, WILL -- APPLY TO THESE ELECTRONIC TRANSFERS OF BENEFITS, JUST AS IT APPLIES TO ATM TRANSACTIONS AND DIRECT DEPOSIT OF PAYCHECKS. I ALSO BELIEVE THAT, IF BANKS EARN FEE INCOME THROUGH THIS "EBT" EFFORT, IT'S ONLY FAIR THAT THEY BE REQUIRED TO OFFER LOW COST, BASIC BANKING ACCOUNTS.

Statement of Congressman Cleo Fields

August 11, 1994

Thank you, Mr. Chairman. As most of you know, during my first term in Congress, I have focused on the plight of the underserved in the banking community. I appreciate Chairman Neal and Chairman Kennedy giving their respective subcommittees the chance to hear more about the opportunities for improvement in the financial services industry. I welcome this time to hear what the banking community, check cashing community, and state agencies have to say about basic financial services and how they are addressing the needs of the communities they serve.

STATEMENT OF HONORABLE KWEISI MFUME

AUGUST 11, 1994

CONSUMER ACCESS TO FINANCIAL SERVICES

MR. NEAL AND MR. KENNEDY, I WANT TO THANK YOU BOTH FOR CONVENING THIS JOINT HEARING ON "WAYS OF INCREASING ACCESS OF LOW- AND MODERATE-INCOME AMERICANS" TO FINANCIAL SERVICES. YOU ARE VERY AWARE OF MY CONCERNS IN THIS AREA, AND IN FACT WE HAVE RECENTLY DISCUSSED THESE CONCERNS DURING CONSIDERATION OF THE INTERSTATE BANKING AND BRANCHING LEGISLATION WHICH RECENTLY PASSED THE HOUSE AND SENATE. AS THE CHAIRMEN KNOW, SEVERAL OF THE MEMBERS OF THE HOUSE BANKING COMMITTEE, INCLUDING MR. KENNEDY, ATTEMPTED TO OFFER A CONSUMER AMENDMENT THAT WENT TO THE HEART OF SOME OF THE ACCESS ISSUES THAT WILL BE DISCUSSED HERE TODAY. UNFORTUNATELY, THE INTERSTATE LEGISLATION IS MOVING FORWARD WITHOUT THE BENEFIT OF THE CONSUMER AMENDMENT; WHICH WOULD HAVE 1) REQUIRED REGULATORS TO CONSIDER WHETHER BANKS ENTERING NEW MARKETS ACROSS STATE LINES WOULD RESULT IN IMPROVEMENTS IN THE AVAILABILITY OF CREDIT AND DEPOSIT SERVICES TO THOSE AREAS, 2) PREVENTED BRANCH CLOSING IN LOW-INCOME AND MINORITY AREAS BY BARRING FURTHER EXPANSIONS FOR BANKS WHICH HAVE EXHIBITED A

PATTERN OR PRACTICE OF SHUNNING LOW- AND MODERATE-INCOME AREAS IN THE PLACEMENT OF THEIR BRANCHES, AND 3) REQUIRED BANKS WITH BRANCHES IN MULTIPLE STATES TO DISCLOSE INFORMATION ON CALL REPORTS ON THEIR DEPOSIT-TAKING AND LENDING ACTIVITIES IN AREAS WHICH THEY OPERATE AND WOULD HAVE REQUIRED BANKS TO REPORT LENDING TO SMALL BUSINESSES AND TO MINORITY-OWNED SMALL BUSINESSES.

THERE ARE SEVERAL INTERCONNECTING ISSUES, I BELIEVE, THAT IMPACT ON THE ISSUE OF ACCESS TO SERVICES FOR LOW- AND MODERATE-INCOME INDIVIDUALS. ASIDE FROM INTERSTATE POWERS, ANOTHER AREA WHERE I HAVE EXPLORED THIS ISSUE INVOLVES THE HIRING PRACTICES OF THE FEDERAL RESERVE SYSTEM. THE FEDERAL RESERVE HAS REPORTED EXTENSIVE BIAS AGAINST MINORITIES IN BANK LENDING. I FEEL THAT BANK REGULATORS SUCH AS THE FEDERAL RESERVE WOULD MOVE MORE VIGOROUSLY TO ERADICATE THIS DISCRIMINATION IF THEY, THEMSELVES, WERE COMPOSED OF DECISION-MAKING PERSONNEL MORE REFLECTIVE OF THE COUNTRY'S DIVERSITY. HOWEVER, 1993 DATA PREPARED BY THE HOUSE COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS REGARDING THE FEDERAL RESERVE SYSTEM, SUGGEST THAT WOMEN AND MINORITIES HAVE LITTLE OR NO SAY IN THE CONDUCT OF OUR NATION'S MONETARY POLICY OR BANK REGULATION. I FIRMLY BELIEVE THAT THESE TYPES OF

INSTITUTIONAL BARRIERS MUST BE ADDRESSED ALONGSIDE SOME OF THE FUNDAMENTAL ISSUES OF THINGS LIKE BASIC BANKING SERVICES AND LOW-COST CHECKING ACCOUNTS.

LET ME ALSO ADD THAT I AM PLEASED TO WELCOME **MS. DALE BROWN**, THE PROJECT DIRECTOR OF THE ELECTRONIC BENEFITS TRANSFER PROGRAM FOR THE STATE OF MARYLAND. THE STATE OF MARYLAND'S PROJECT BEGAN IN MY DISTRICT IN PARK CIRCLE AND THE PROGRAMS SUCCESS HAS LED TO STATEWIDE EXPANSION. IN FACT, MARYLAND IS THE ONLY STATE AT PRESENT THAT USES ELECTRONIC BENEFITS TRANSFER (EBT) ON A STATEWIDE BASIS. I LOOK FORWARD TO DISCUSSING THE SUCCESSES OF THE PROGRAM WITH MS. BROWN AS WELL AS RECENT ACTION BY THE FEDERAL RESERVE IN SUSPENDING **REGULATION E** COVERAGE OF EBT TRANSACTIONS UNTIL MARCH OF 1997.

AGAIN, THANK YOU, GENTLEMEN, FOR CONVENING THIS HEARING. I MUST SAY THAT TIME AND AGAIN, BOTH THE HOUSE AND SENATE HAVE REVIEWED MANY OF THESE ACCESS ISSUES. TIME AND AGAIN THE DATA SUGGEST TO US THAT THERE ARE SOME FUNDAMENTAL PROBLEMS THAT MUST BE ADDRESSED. EVEN JUST THIS WEEK IN THE WALL STREET JOURNAL THERE WAS AN ARTICLE THAT NOT ONLY TALKED ABOUT NEGLECT IN MINORITY AREAS, BUT ACTUALLY COMPARED ONE INDUSTRY TO ANOTHER. THE HEADLINE READS, "SOME MORTGAGE FIRMS NEGLECT BLACK AREAS MORE THAN BANKS DO." SO IT SEEMS THAT IT IS NOW

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NOT JUST AN ISSUE OF NEGLECT, BUT WHO IS DOING IT MORE!

IT IS MY HOPE THAT WE WILL MOVE TOWARD ENACTMENT OF LEGISLATION TO ADDRESS ISSUES OF ACCESS IN A THOROUGH FASHION EARLY IN THE NEXT CONGRESS. MR. NEAL, I APPRECIATE YOUR BEING SENSITIVE TO THESE ISSUES AND HOPE THAT YOUR SUCCESSOR WILL FOLLOW YOUR LEAD IN DIRECTING THE BUSINESS OF THE FINANCIAL INSTITUTIONS SUBCOMMITTEE NEXT CONGRESS.

STATEMENT OF GERALD MURPHY

FISCAL ASSISTANT SECRETARY

UNITED STATES DEPARTMENT OF THE TREASURY

BEFORE THE JOINT HEARING OF THE HOUSE BANKING SUBCOMMITTEES ON CONSUMER CREDIT AND INSURANCE; AND FINANCIAL INSTITUTIONS SUPERVISION, REGULATION AND DEPOSIT INSURANCE

AUGUST 11, 1994

Good morning, Chairman Kennedy and Chairman Neal, and members of the subcommittees. Thank you for providing me with the opportunity to testify at this hearing.

My name is Gerald Murphy, and I am the Fiscal Assistant Secretary for the United States Department of the Treasury. While I have many duties, perhaps the most important are to oversee Treasury's payments and collections system. During the present Fiscal Year, Treasury's Financial Management Service (FMS) will process and deliver roughly 840 million Treasury payments, and collect approximately $1.2 trillion in Federal revenues. My other responsibilities include promoting sound financial management practices throughout the Federal Government, managing the Government's central accounting and reporting system, and providing a number of other financial services.

I am here today to convey the Administration's commitment to developing an efficient, electronic system to deliver Federal benefits and payments to those who lack bank accounts, the so called unbanked. Our program is referred to as Electronic Benefit Transfer, or EBT.

EBT will enable the Government to electronically deliver a full array of benefits and payments to the unbanked, including food stamps, Aid to Families with Dependent Children (AFDC), and Supplemental Security Income (SSI). Under EBT, paper checks will be replaced with plastic cards. Basically, unbanked recipients will be issued debit cards by the Government. The debit cards will then be utilized to access Automated Teller Machines (ATMs) to withdraw cash and Point-of-Sale (POS) terminals for the purchase of food and other retail commodities.

Before I report on our efforts to make EBT a National reality, let me briefly detail the Department of the Treasury's advancement into Electronic Funds Transfer (EFT) systems.

Treasury is the leader in promoting the use of electronic methods for making Federal Government payments. In FY 1993, for the first time ever, Treasury made more than 50 percent of direct Federal benefit payments electronically, using primarily direct deposit. These payments include Social Security, SSI, Veterans Pension and Compensation, and Civil Service and Railroad

Retirement benefit programs. Disbursing these payments electronically saves the taxpayers nearly $100 million per year. It also provides recipients with significantly greater safety and convenience compared with receiving and cashing Government checks.

Treasury's long-term goal is to create an all-electronic Treasury, with all payments and collections made electronically. By 1999, our objective is to make 80 percent of all benefit payments electronically. But, we cannot depend exclusively on direct deposit to achieve that objective.

To use direct deposit, recipients must have a bank account. Unfortunately, an estimated 20-30 million Americans, including 10 million recipients of direct Federal benefits, do not have bank accounts, and thus cannot participate in the direct deposit program. Since the late-1980's, Treasury has been testing the use of EBT to make payments electronically to these unbanked Federal benefit recipients. As stated previously, EBT simply enables recipients to use plastic cards to access their benefits through ATMs and retail POS terminals.

Treasury has demonstrated that recipients of direct Federal benefits, who do not have bank accounts, can receive the greater safety and convenience of electronic payments in a cost-effective manner using EBT. Baltimore, Maryland was the site of Treasury's

first pilot in 1989. Currently, we are testing EBT in Texas, specifically the Houston and Dallas/Ft. Worth metropolitan areas.

We believe that the Government-wide use of EBT for not only Federal benefits, but State-administered program payments as well, will promote sound Government financial management. Current EBT pilots have delivered food stamps, AFDC and other State-administered programs, in: Reading, Pennsylvania; Bernallio County (Albuquerque), New Mexico; Ramsey County (St. Paul), Minnesota; Linn County, Iowa; Dayton, Ohio; Camden County, New Jersey; and the entire State of Maryland. Evaluations of these pilots have shown that such benefits can be delivered cost-effectively using EBT.

Furthermore, all of the pilots, Federal as well as State-run, have demonstrated that, as compared with paper check disbursement, EBT:

* is safer and reduces crime
* provides convenience for recipients as well as food stamp retailers
* empowers low-income recipients and enhances a sense of dignity
* has the potential to save taxpayer dollars through more efficient disbursement and by combating fraud in welfare programs.

The real opportunity, and challenge, in EBT is in combining both the Federal and State programs in a single, unified EBT payment process that is modelled closely after, and uses to the extent possible, the commercial banking infrastructure.

Vice President Gore's September 1993 report of the National Performance Review called for the rapid development of a nationwide, integrated system to deliver Government benefits electronically.

An EBT Task Force, comprised of the Federal Government Agencies that have the greatest interest in EBT, was chartered in November 1993 to meet this challenge. In May 1994, the Task Force issued its implementation plan for nationwide EBT, with the concept of EBT as a one card, user friendly, unified electronic delivery method for all Government funded benefits under a Federal-State partnership.

The plan projects that once fully implemented, a broad range of Federal and State benefits, including food stamps, AFDC, State General Assistance, Social Security, and SSI will be delivered using EBT. The Task Force estimates that benefits totalling over $111 billion annually will be delivered electronically to over 31 million recipients.

Based on our experience in EBT and our role in Government

financial management, Treasury has been an active participant in the EBT Task Force, along with the Office of Management and Budget, the United States Department of Health and Human Services, and the United States Department of Agriculture. My Deputy and I represent Treasury on the Task Force. We have detailed staff to work with the Task Force executive staff, and we have an in-house staff to support Treasury's commitments to the Task Force. These commitments relate closely to Treasury's traditional role in payments and financial services, and include acquisition of EBT banking services, development of EBT settlement services, development of EBT audit and certification requirements, and coordination with the financial industry. We at Treasury are also continuing our active role in promoting the use of direct deposit and EBT for direct Federal benefit programs to ensure that we achieve our 80 percent objective by 1999.

Treasury's acquisition of EBT services will support both of the strategic paths endorsed by the Task Force for nationwide EBT, which are: the development of one or more EBT prototypes in joint venture partnership between one or more States and the Federal Government; and, the State-initiated approach in which Treasury provides direct Federal and settlement services that States can access through their own acquisition processes. In either case, the Task Force will provide States a foundation, including base service requirements, operating rules, and funding agreements, that will ensure a consistent operating environment

among States, enabling true interstate access of benefits and reduced costs through standard requirements and operations.

Currently, one of the Task Force's highest priorities is to work with seven southern States, known as the Southern Alliance of States, to develop the first of the joint-venture partnership EBT prototypes. The seven States are: Alabama, Arkansas, Florida, Georgia, Missouri, North Carolina, and Tennessee. These States began working together over a year ago, and formally asked the Federal Government to work with them to define, develop, and implement an integrated regional Federal/State EBT system. The Southern Alliance plans to have a pilot system running by early 1996.

The Task Force has consulted, and continues to consult closely, with the key non-government parties with a crucial interest in EBT: retailers, financial institutions, and recipient advocacy groups.

The input and support of these stakeholder groups is critical to the success of EBT, and by understanding each group's needs, will provide the opportunity to design a more efficient, cost-effective process. For example, retailer groups have expressed a willingness to invest in Point-of-Sale infrastructure that can be used by EBT if the Government can ensure a standard retailer interface in all EBT systems. This sort of trade-off can make

EBT more cost-effective for both Government and retailers.

The EBT Task Force's plan for nationwide EBT is clear and in writing:

1) establish partnerships with States

2) build the foundation to ensure consistency among States and with commercial processes

3) implement EBT both in joint-venture partnerships and State-initiated projects

4) expand EBT to include additional benefit programs

5) enhance EBT by adopting new and evolving technologies such as smart cards.

This plan provides for nationwide EBT by 1999. While maintaining this focus, Treasury will not miss opportunities to expand EBT for direct Federal benefits where it makes sense, and adding these benefits to existing State EBT programs to help reduce the cost and increase the level of service to recipients who receive both a Federal and a State benefit.

We at Treasury, and I think I can speak for the other members of the EBT Task Force, are very excited about the prospects for EBT. This is truly a win-win situation--recipients get greater safety and convenience, and an enhanced sense of dignity; Federal and State Governments have a way to improve service to our customers at reduced cost; and the private sector will save money compared to the cost of processing paper checks and food coupons. There are still numerous issues that need to be resolved to make nationwide EBT a reality. But EBT can reflect Government at its

best, working better and costing less.

Thank you again for the opportunity to appear at this joint hearing and discuss EBT. I am available to answer any questions.

DEPARTMENT OF THE TREASURY
WASHINGTON

ASSISTANT SECRETARY

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SUBCOMMITTEE ON
FINANCIAL INSTITUTIONS

October 7, 1994

The Honorable Stephen Neal
Chairman
Subcommittee on Financial Institutions
Supervision, Regulation and Deposit
Insurance
Committee on Banking, Finance and
Urban Affairs
U.S. House of Representatives
Washington, DC 20515

Dear Mr. Chairman:

Thank you for the opportunity to provide testimony before subcommittees of the House Banking Committee on August 11th. The joint hearing convened to explore ways to increase access of low- and moderate-income Americans to financial services. Enclosed are answers to Representative Mfume's follow-up questions, as requested by your letter of September 1, 1994.

I believe Electronic Benefit Transfer (EBT) is an innovative solution to address access to financial services by the unbanked. As the Treasury representative on the EBT Task Force, I am encouraged by the interest generated at the hearing and look forward to working with you and other Members.

If there are any additional questions, please feel free to contact me on 622-0550.

Sincerely,

Gerald Murphy

Gerald Murphy
Fiscal Assistant Secretary

Enclosure

Question #1: You stated in your comments that estimated losses as a result of abuse in the EBT program amount to $120M to $900M annually. This is a broad range.

(a) <u>What are these estimates based on?</u>

These estimates approximate State and Federal liabilities associated with Regulation E (Reg E) and include the cost of benefit replacement plus costs associated with administration, prevention, and claims investigation. The estimates are based on two different sources:

1) A consultant study under Federal contract which includes best case/worse case liability estimates involving Aid to Families with Dependent Children (AFDC) and the Food Stamp Programs, and;

2) comments submitted to the Federal Reserve by the American Public Welfare Association (APWA) which includes best case/worse case liability estimates involving Food Stamps only.

The consultant study outlines debit card losses experienced by private sector financial institutions and attempts to estimate what similar public sector replacement costs might be if Reg E applied to certain EBT programs like AFDC and Food Stamp Programs. However, certain assumptions for estimating public sector liabilities were based on replacement claims of paper checks and food coupons.

The estimates from APWA involved Food Stamps only and were derived from survey results completed by Food Stamp Administrators representing 25 separate states, extrapolated to the national Food Stamp Program. Again, assumptions and estimates involving public sector Reg E liabilities were based on replacement claims of food coupons.

(b) <u>Do you have end figures on estimated losses because of fraud and abuse for mainstream cards like American Express, Visa or Master Card?</u>

No. Losses experienced by mainstream credit card companies were not considered useful. The consultant study includes private sector Reg E liabilities on bank debit cards which more closely parallel an EBT environment.

(c) Isn't it true that, using Maryland as an example, EBT services have actually enhanced the ability to detect fraud and even curbed benefit fraud by creating an electronic trail that is easier to monitor?

Yes. It is true that EBT enhances the Government's ability to track and reduce certain types of fraud which exist in paper-based systems. In Maryland, for example, fraud is more visible since electronic detail regarding transactions is readily available. Other types of problems such as mail fraud simply disappear in EBT since there is no need to mail recipients checks or food coupons.

Question #2: With regard to cost sharing, it appears that nationwide EBT may involve transaction fees for recipients.

(a) Will withdrawal fees pose any significant burden to public assistance recipients who already rely on the assistance to meet their basic financial needs?

Needs-based benefit recipients who participate in mandatory EBT programs such as AFDC will be able to access benefits at little or no charge. This means that there will be a sufficient number of free ATM and point-of-sale (POS) transactions available to access the full amount of their cash benefits. However, after a minimum number of transactions, which may vary from state to state, recipients will likely be charged a nominal fee for additional use of ATM's or POS cash transactions.

Currently, many unbanked benefit recipients pay a substantial check cashing fee to convert their checks to dollars; 3-5 percent of the face value of the check is not unusual. For a $500 check, this would mean a cost of $15-$25. However, with nationwide EBT, which offers recipients added safety and convenience, the cost to access cash benefits will be substantially less. There will be no charge to recipients who use their cards to purchase food under the food stamp program.

(b) Have there been any estimates made in this regard?

As stated in the May 1994 Federal Electronic Benefits Transfer Task Force Report From Paper to Electronics: Creating a Benefit System that Works Better and Cost Less, the volume of transactions which will be processed through a national EBT system will result in very reasonable cost for recipients. Our position is that charges to recipients must be nominal, in keeping with the Task Force Report. The strategy in this Report calls for a system in which cash benefit recipients can access their benefits at "little or no cost."

Question #3: Does the Department of Treasury have any opinion on the Federal Reserve's action to suspend coverage of Regulation E until March 1997?

Treasury supports the Board's decision to delay coverage until March 1997 because it allows Treasury the opportunity to work cooperatively with federal program agencies and States to accomplish the following:

1) Acquire empirical data using pilot studies and analyze the results. Since Regulation E has never applied to State-initiated EBT demonstrations, no primary data is available which accurately predicts Government liabilities related to benefit replacement. All liability estimates are essentially based on paper-based issuance systems.

2) Develop appropriate operating rules and policy guidance. It is essential to implement Reg E uniformly nationwide, and implement the regulation by building in system features which minimize fraud and abuse, provide consumer protection to recipients, and safeguard the security of public funds.

3) Develop and implement a strategy for getting Federal legislative authority and funding to cover Reg E liabilities. Current law and program rules governing the AFDC and Food Stamp Program (45 CFR 201.70 and 7 CFR 262.2(b)7 respectively) restrict the Federal Government from assuming Reg E liability costs and should be amended. In addition, as part of the budget approval process, appropriations to fund liabilities associated with Reg E will be necessary.

NEW JERSEY CONSUMER CHECKING ACCOUNT ACT

TESTIMONY BY ELIZABETH RANDALL, COMMISSIONER NJ DEPARTMENT OF BANKING

FINANCIAL INSTITUTIONS SUB COMMITTEE

AUGUST 11, 1994

GOOD MORNING MR. CHAIRMAN AND DISTINGUISHED MEMBERS OF THE FINANCIAL INSTITUTIONS SUB COMMITTEE. MY NAME IS ELIZABETH RANDALL AND I AM THE COMMISSIONER OF THE NEW JERSEY DEPARTMENT OF BANKING.

FIRST, LET ME CONGRATULATE YOU, CHAIRMAN NEAL AND YOUR COLLEAGUES, ON THE RECENT PASSAGE OF THE BANKING EFFICIENCY ACT OF 1994, AND THANK YOU FOR AGREEING TO REVISIT THE ISSUE OF LOW COST BASIC BANKING SERVICES.

I APPRECIATE THE OPPORTUNITY TO BE HERE TODAY TO GIVE YOU SOME INSIGHTS INTO BASIC CHECKING, BASED ON OUR EXPERIENCE IN NEW JERSEY.

ON DECEMBER 1, 1992, NEW JERSEY BECAME THE FIRST STATE IN THE NATION TO REQUIRE ALL BANKS, THRIFTS AND CREDIT UNIONS TO OFFER LIFELINE CHECKING ACCOUNTS.

IN SEPTEMBER OF 1990, PRIOR TO THE ENACTMENT OF THIS LAW, THE DEPARTMENT OF BANKING CONDUCTED A STUDY OF THE AVAILABILITY OF BASIC BANKING SERVICES. WE FOUND THAT APPROXIMATELY 25 PERCENT OF NEW JERSEY FINANCIAL INSTITUTIONS, MOSTLY THE LARGER ONES, OFFERED A CHECKING ACCOUNT WHICH COULD LOOSELY BE CLASSIFIED AS LOW COST.

IN ADDITION, WE FOUND THAT MINIMUM BALANCE REQUIREMENTS OF ALL CHECKING ACCOUNTS AVERAGED APPROXIMATELY 500 DOLLARS. AT THE SAME TIME, AN INDEPENDENT STUDY TRACKED A TREND IN THE INDUSTRY TOWARD HIGHER FEES FOR RETAIL BANKING SERVICES.

OUR RESEARCH ALSO INDICATED THAT THE ABSENCE OF BASIC CHECKING SERVICES FORCED YOUNG PEOPLE, PEOPLE OF MODEST INCOME AND THE ELDERLY TO OPERATE ON A CASH ONLY BASIS MAKING THEM MORE VULNERABLE TO THEFT AND LEAVING THEM WITH LESS CONTROL OVER THEIR FINANCES. I THINK WE CAN ALL AGREE THAT HAVING A CHECKING ACCOUNT IS A VIRTUAL NECESSITY IN TODAY'S WORLD.

OUR STUDY FURTHER DETERMINED THAT THESE INDIVIDUALS WERE FORCED TO USE RELATIVELY COSTLY CHECK CASHING SERVICES TO CASH THEIR SOCIAL SECURITY OR WELFARE BENEFITS CHECKS - THEREBY CONTRIBUTING TO UNDERMINING THE EFFECTIVENESS OF THESE PUBLIC ASSISTANCE PROGRAMS.

THE NEW JERSEY CONSUMER CHECKING ACCOUNT ACT PROVIDES A REMEDY FOR THESE PROBLEMS. I WOULD LIKE TO TAKE THIS OPPORTUNITY TO BRIEFLY OUTLINE THE FEATURES OF OUR LIFELINE CHECKING ACCOUNT.

1) ANY NEW JERSEY RESIDENT WHO REQUESTS SUCH AN ACCOUNT MUST BE PROVIDED WITH ONE. THERE IS NO MEANS TEST.

2) THE INITIAL DEPOSIT REQUIREMENT MAY NOT EXCEED 50 DOLLARS.

3) THE MINIMUM BALANCE TO MAINTAIN THE ACCOUNT IS ONE DOLLAR.

4) ACCOUNT HOLDERS MUST BE PROVIDED WITH AT LEAST EIGHT FREE CHECKS A MONTH AND CANNOT BE CHARGED MORE THAN 50 CENTS FOR EACH ADDITIONAL CHECK BEYOND THE FIRST EIGHT.

5) ACCOUNT HOLDERS ARE ALLOWED UNLIMITED WITHDRAWALS AND DEPOSITS.

6) THE MONTHLY MAINTENANCE FEE CANNOT EXCEED 3 DOLLARS.

7) CONSUMERS WHO HOLD A "NEW JERSEY CONSUMER CHECKING ACCOUNT" CANNOT BE CHARGED MORE FOR A.T.M. USAGE OR CHECK PRINTING THAN CUSTOMERS WHO HOLD TRADITIONAL ACCOUNTS.

8) FINANCIAL INSTITUTIONS ARE REQUIRED TO PROMINENTLY DISPLAY NOTICE OF THE AVAILABILITY OF THE "NEW JERSEY CONSUMER CHECKING ACCOUNT."

DURING THE FIRST FOUR MONTHS OF 1993, THE DEPARTMENT CONDUCTED A SURVEY TO DETERMINE COMPLIANCE WITH THE NEW LAW. I AM PLEASED TO REPORT THAT THE NEW JERSEY CONSUMER CHECKING ACT HAS BEEN VERY SUCCESSFUL. THERE HAS BEEN WIDESPREAD INDUSTRY COMPLIANCE AND WIDESPREAD CONSUMER USAGE.

DURING THE FIRST FOUR MONTHS THE LAW WAS IN EFFECT, 153,000 NEW JERSEY CONSUMERS OBTAINED A "NEW JERSEY CONSUMER CHECKING ACCOUNT." I SHOULD NOTE THAT ONLY NEW CHECKING ACCOUNT APPLICANTS ARE ELIGIBLE. THEREFORE, THESE 153,000 PEOPLE DID NOT POSSESS ANY OTHER CHECKING ACCOUNT BEFORE OBTAINING A "NEW JERSEY CONSUMER CHECKING ACCOUNT."

OUR SURVEY DETERMINED THAT THE NEW LAW WAS NOT A HARDSHIP FOR OUR DEPOSITORIES. SINCE MOST OF THE LARGER BANKS ALREADY OFFERED SOMETHING SIMILAR TO A BASIC CHECKING ACCOUNT, IT BEHOOVED THE OTHER BANKS FROM A COMPETITIVE STANDPOINT TO ALSO OFFER A LOW COST CHECKING ACCOUNT. IN ADDITION, THE LAW GIVES THE DEPARTMENT OF BANKING THE ABILITY TO GRANT WAIVERS TO BANKS WHO OFFER A SIMILAR PRODUCT TO THE "NEW JERSEY CONSUMER CHECKING ACCOUNT." FINALLY, THE LAW ALLOWS THE DEPARTMENT OF BANKING TO GIVE AN EXEMPTION TO A BANK THAT CAN PROVE IT IS LOSING MONEY ON THE CHECKING ACCOUNT.

THE LAST ISSUE I'D LIKE TO TOUCH ON IS THE APPLICATION OF THIS LAW TO FEDERALLY CHARTERED DEPOSITORIES IN NEW JERSEY. MY DEPARTMENT'S POSITION IS THAT FEDERALLY CHARTERED DEPOSITORIES WITHIN THE STATE ARE REQUIRED TO COMPLY WITH THE TERMS OF THIS ACT. HOWEVER, AS YOU ARE AWARE THE COMPTROLLER OF THE CURRENCY IN INTERPRETIVE LETTER NUMBER 572 STATED THAT THE "NEW JERSEY CONSUMER CHECKING ACT," AS APPLIED TO NATIONAL BANKS, WAS PREEMPTED BY THE FEDERAL BANK ENTERPRISE ACT.

THIS OPINION RELIED HEAVILY ON THE FACT THAT THE FEDERAL ACT PROVIDED NATIONAL BANKS WITH AN INCENTIVE TO OFFER LIFELINE ACCOUNTS. I WAS PLEASED TO NOTE THAT CONGRESS HAS CLARIFIED ITS INTENT WITH REGARD TO LIFELINE CHECKING ACCOUNTS IN THE CONFERENCE REPORT OF THE BANKING EFFICIENCY ACT OF 1994. YOUR STATEMENT THAT YOU DID NOT INTEND TO PREEMPT STATE LAWS ON BASIC BANKING WHEN YOU INCLUDED INCENTIVES IN THE BANK ENTERPISE ACT FOR FEDERALLY CHARTERED BANKS TO OFFER LIFELINE CHECKING ACCOUNTS WILL ENCOURAGE OTHER STATES TO ADOPT SIMILAR MEASURES.

THE "NEW JERSEY CONSUMER CHECKING ACCOUNT ACT" IS A MODEL FOR OTHER STATES FOR SEVERAL REASONS. FIRST, THERE IS DEFINITELY A MARKET FOR LOW COST CHECKING ACCOUNT SERVICES. SECONDLY, THE NEW JERSEY LAW GAVE THE STATE REGULATOR THE ABILITY TO ASSESS THE REQUIREMENTS OF NEW JERSEY'S CONSUMERS AND DEPOSITORIES AND TAYLOR THE LAW TO MEET THOSE REQUIREMENTS. THEREFORE, THE "NEW JERSEY CONSUMER CHECKING ACCOUNT" IS TRULY REFLECTIVE OF THE NEEDS OF OUR PARTICULAR STATE.

IF THE CONGRESS CHOOSES TO IMPOSE A NATIONAL CONSUMER CHECKING ACCOUNT LAW, I WOULD RESPECTFULLY URGE YOU TO GRANT THE STATES CONSIDERABLE LEEWAY SO THEY CAN DEVELOP A PRODUCT THAT IS MOST CONDUCIVE TO THE NEEDS OF THEIR RESIDENTS AND DEPOSITORIES. I BELIEVE ALL THE STATES CAN SUCCESSFULLY SERVE AS LABORATORIES TO TEST NEW BANK PRODUCTS.

ALSO, I WOULD APPRECIATE ANY ASSISTANCE YOU CAN LEND TO ENCOURAGE THE OFFICE OF THE COMPTROLLER OF THE CURRENCY TO RETHINK ITS POSITION ON PREEMPTION OF STATE BASIC BANKING LAW.

AGAIN, THANK YOU MR. CHAIRMAN AND MEMBERS OF THE SUB COMMITTEE FOR ALLOWING ME THIS OPPORTUNITY TO DISCUSS NEW JERSEY'S CONSUMER CHECKING ACCOUNT LAW WHICH MELDS SAFE AND SOUND BUSINESS PRACTICES AND CONSUMER NEEDS.

THANK YOU.

Statement of Dale Brown

For: Subcommittee on Financial Institutions, Supervision, Regulation and Deposit Insurance of the Committee on Banking, Finance and Urban Affairs

In November 1989, the State of Maryland began the pilot of an Electronic Benefits Transfer System (EBTS) project that delivered multiple welfare benefits using a single plastic debit card known as the Independence Card. Recipients eligible for food stamps, Aid to Families with Dependent Children (AFDC), Disability Assistance Loan Program (DALP--formerly General Public Assistance), child support bonus, and non-public assistance child support participated in the pilot. The pilot project began in the Park Circle District of Baltimore City with approximately 5,000 clients and 150 stores. The success of the pilot has led to statewide expansion of the EBTS project.

Today in Maryland, over 168,000 households receive a public assistance benefit using the "Independence Card". This month alone we authorized in excess of $55,000,000 in cash and food stamp benefits electronically. Over 99% of our recipients receive benefits using EBTS. Clients can access their cash benefits from ATM's on the Most network or get cash on the Point of Sales (POS) devices located throughout the State.

Despite early resistance from a large number of clients, much of the skepticism has disappeared. The clients began to depend upon the efficiencies of the system and would name the very same benefits that we used initially as a selling point of the system.

1. knowing when the benefits would be available without depending on the mail.
2. better money management
3. protection against loss and theft
4. no charge to access benefits
5. no need to withdraw all benefits at one time
6. convenience and security

In the area of client training and card issuance, the Maryland Department of Human Resources and Federal agencies had a great deal of concern about how recipients would accept this new technology and how the card would be managed among so diverse and challenged a population. We also have a larger proportion of elderly, disabled and addicted. It was for this reason that we gave so much attention to the design of the client training. Each recipient was required to attend a one hour training session prior to receiving a card. They viewed a video that introduced them to the card, then were given a follow up explanation of the fine points of the card use. The training emphasized: protecting the magnetic strip on the card, selecting a PIN that will be easily remembered, but not compromised, and the importance of not sharing the PIN number. At the end of the training session, the recipients were given lists of the locations of local POS devices, ATMS. Each client also received a wallet sized card with the numbers for the Automated Response Unit where they can call from a touch tone phone to get their balances 24 hours a day, seven days a week. The card itself also contained the customer service number in Milwaukee where the

recipient calls with card related problems or to report a card lost or stolen. The training site was equipped with a mock ATM machine, a POS device, and a touch tone phone so that recipients could get hands on training with all of the different types of technology that they would be using. Once the hands on training was complete, recipients were allowed to select their Personal Identification number (PIN) and receive their cards.

Maryland learned after the fact that the recipients felt greater self-esteem since they were using the same technology found among banking customers. Many stated that they just liked the idea of having plastic in their pocket. We now know that clients transact more than half of their cash from ATM's averaging four (4) ATM transactions per case.

Overall, the Maryland project has demonstrated that a nationwide system can be successful and cost effective, as well as moving recipients towards the age of technology.

TESTIMONY OF MR. MARCELO M. ELISSETCHE,

CHAIRMAN OF THE BOARD OF DIRECTORS OF

ALIANZA FEDERAL CREDIT UNION (AFCU) OF

WASHINGTON, D.C.

U.S. HOUSE OF REPRESENTATIVES

Subcommitte on Finacial Institutions, Supervision, Regulation and Deposit Insurance - Committee on Banking, Finance and Urban Affairs

Washington, D.C. - August 11th, 1994

My name is marcelo Elissetche and I am the Chairman of the Board of Directors of ALIANZA FEDERAL CREDIT UNION in the District of Columbia. Alianza FCU is a low-income designated community development credit union chartered by the federal government in November 1993 to serve the neighborhoods of Mount Pleasant, Adams Morgan, and Columbia Heights. We opened for business on December 16th, 1993.

Although the neighborhoods of Adams Morgan, Columbia Heights and Mount Pleasant have unique histories, all three share similar development patterns marked by continuing change. The residential and commercial areas of these neighborhoods were developed during the late nineteenth and early twentieth centuries. Today, these vibrant urban centers are proud to be the most ethnically diverse neighborhoods in Washington,D.C. However, they were originally promoted to only white, prosperous families as convenient havens from the stresses of city life and the oppressive climate of Washington summers. The names of Columbia Heights and Mount Pleasant which advertise their higher elevations are taken from landmarks which predate neighborhood development--Columbia College and the 18th century Pleasant Plains estate. Adams Morgan's neighborhood identity grew out of community activism in the 1950's.

During the initial development of these areas, two and three story single family homes were predominant. A few mansions were also built. Sixteenth Street, which runs through the center of the area, became a location for both chanceries and embassies.

For the most part, people of color, other than servants, were initially excluded from this area. This exclusion was the result of more than custom in many cases, it was also dictated by the restrictive covenants in property deeds.

Commercial corridors were created along 14th, 18th and Mount Pleasant Streets and Columbia Road and Connecticut Avenue during the early 1900's. They included neighborhood stores, handsome movie theaters and a few larger businesses that served customers throughout the Washington area. In the 1920's, trolley lines were established on these corridors, and since that time the area has benefitted from reliable and convenient public transportation.

In the 1930's apartment houses were built along the commercial corridors. People who were single, less affluent, and in some cases, transient became residents of the area. Because of the housing shortage during World War II, some large homes were turned into rooming houses. Others were divided into several smaller housing units.

As early as the 1920's African-Americans began moving into the eastern part of Columbia Heights. After the 1948 and 1954 Supreme Court decisions outlawing restrictive covenants and segregated school systems, African-Americans moved into houses and apartments in all three neighborhoods in significant numbers, and they established businesses along the commercial corridors. In the 1950's Latinos started moving into the area in larger and larger numbers. Puerto Ricans came first, Cubans next. Bodegas and other Latino-owned shops became part of the commercial scene along Mount Pleasant Street,

Columbia Road and Eighteenth Street.

During the 1950's, the relatively new neighborhood of Adams Morgan grew out of the community spirit shared by the residents of four old neighborhoods--Meridian Hill and Kalorama, Lanier and Washington Heights. The fight for community control of the Adams and Morgan schools led to the Adams Morgan Better Neighborhood Conference and the formation of the Adams Morgan Community Council. The community council no longer exists, but its boundaries are now accepted as the boundaries of the Adams Morgan neighborhood.

During the 1960's, the area was characterized by hope and energy. Racial integration had become a fact of neighborhood life, and it worked. People began moving to the area because of its ethnic diversity. Immigrants from the Caribbean and Central and South America increased the area's Latino population. The three neighborhoods also attracted artists, intellectuals and social activists.

The 1968 riots that followed the assassination of Martin Luther King brought heartbreaking destruction. Physical damage was most severe along the 14th Street corridor where today boarded up shops are a continuing reminder of the torched small businesses that never returned. Although there are no lasting physical scars on Mount Pleasant Street, that commercial area has not been able to return to the economic prosperity it enjoyed before the riots. Columbia Road and 18th street have again become prosperous, but at a price. Sharply increasing land costs have forced out some businesses that had been in the neighborhood for years.

The riots were followed by a period of rapid population change. White and African-American middle class flight occurred. The number of low income Latinos and African American increased. By 1970, the area's Latino population had grown large and diverse enough to create the Latino Festival which was celebrated every July along Mount Pleasant Street and Columbia Road. When the its scope grew beyond a neighborhood event, the festival was moved to the Mall.

During the 1980's, the number of African Americans in the area declined, and the number of whites increased. Turmoil in Central America and Vietnam brought large numbers of Latino and Asian immigrants and refugees to the area. Thousands came from El Salvador. Amerasians and refugees who had been sent to detention camps because of their support for U.S. involvement in Indochina arrived from Vietnam and Cambodia. Refugees also came from Ethiopia, Eritrea, Afghanistan and other trouble spots in the developing world.

The influx of immigrants to the central city, coinciding with the flight of moderate to high income whites and African-Americans from our neighborhoods,created a unique juxtaposition of income levels. Unlike the neighborhoods to the East,which are largely moderate income, Adams Morgan,Columbia Heights, and Mt. Pleasant, as well as neighborhoods to the south of Columbia Heights toward Logan Circle, share a unusual blend of high, moderate and low income residents not found in other sections of the city. This phenomenon can be

attributed to the historic housing stock in the neighborhoods. Youthful and upwardly mobile whites and African Americans moved to the area to renovate grand houses,apartments and condominiums available a reasonable prices and close to entertainment ad business centers like Dupont Circle and the downtown business district. Their neighbors were likely to be moderate income African-Americans who were longtime community residents or low-income African-Americans or immigrants living in single family homes converted to rooming houses or occupying once-elegant apartment buildings that have deteriorated over the years.

Though the mix of low, moderate and high income residents and the multicultural nature of the neighborhoods have let to some concerns about neighborhood gentrification as inter-racial and cultural struggling for economic resources,there is a broad-based commitment in our communities to maintain cultural and economic diversity by ensuring low and moderate income housing and by providing jobs for the community within the community.

Schools, churches and community-based organizations continue to play a vital role in the life of the community. At Bancroft Elementary School, for example, a special program called Even Start helps students from over seventeen countries and their parents adjust to life in their new home. Bell Multicultural High School has a nationally recognized, award-winning program which prepares immigrants for higher education and employment.

Much more than houses of worship, the area's numerous churches serve the community in a number of ways. The Church of the Savior has developed housing and employment programs. St. Stephen and the Incarnation and Calvary Methodist Church provide health services. All Souls Church has been at the forefront of civil rights protection and social service support to immigrants.

Community-based organizations are essential to the quality of life in the area. These organizations numbering over 100 include the Barney Neighborhood House and the Urban League that have been part of their surrounding neighborhoods for a generation, Ayuda, Salud and other Latino groups organized in the 70's and 80's, and the more recently established International Refugee Service Center, which serves refugees from Vietnam.

Over the past three years, the area has sustained a series of economic blows. The financial naivete and thrift of hardworking Latinos was tragically exploited by an unscrupulous business man who called his enterprise the Latin American Investment Corporation. Over 3,000 Latino families who thought they were making bank deposits turned over more than $6.2 million to him, and he invested all of it in real estate ventures that failed. The Latin American Investment Corporation went out of business in early 1991. In May of 1991, a combination of alcohol abuse, unrecognized and unmet needs in the Latino community, resentment of the police and a poorly handled arrest for public drinking sparked two days of civil disturbances along the commercial corridors of the Mount Pleasant and Adams Morgan neighborhoods. The disturbances occurred in the midst of an economic recession which had

already reduced sales for area businesses. One year later, excessive drinking and an inadequate police response to vandalism sparked another night of rioting in May 1992. In March and April of 1993, the area was terrorized by a gunman who shot residents from his car. Even though none of the shootings occurred on a commercial street, neighborhood businesses, already at a low point, declined steeply. The cumulative effect of these economic blows has been severe, but area businesses have a commitment to their neighborhoods and are determined to make a comeback.

Economic characteristics

The geographic target area of Alianza FCU has a large number of low income residents. To the south of this area is Downtown DC. To the east is an area of largely mixed uses including industrial, office and warehouse space, as well as some residential areas north of H Street. The eastern boundary is 7th Street/Georgia Avenue, N.W., a natural boundary observed by neighborhood residents and other geographically defined nonprofit organizations. The northern and western boundaries borders are Rock Creek Park and Connecticut Avenue, N.W. These lines form the boundaries with Ward 3, the wealthiest ward in the city.

The racial composition of the area is mixed. The population of the area is 88,150, which is 14.5% of the total D.C. population, and it comprises 11.3% of the Afro-American population and 49.2% of the Latino population of the District. The median household incomes by ZIP code for the area in 1990 ranged from $17,362 in ZIP code 20001 to $21,650 in ZIP code 20009 (the Lower Living Standard of Income Level for the D.C. SMSA was $23,760 in 1990).

Availability of Banking Services

In the Geographical Area there are 10 banks with a total of 12 branches. In Ward 1 there are 8 banks and only 10 bank branches, compared to Ward 3, which has 16 banks and 42 branches for a population that is greater by only 5 % . The branches, with one exception, are distributed around the edge of Ward 1, leaving a large part of the ward without banking services.

The services offered by the local banks are not suitable for lower income people. In terms of access to credit, there is very little consumer financing that is either affordable or appropriate. In the Alianza FCU geographical area, there are no personal loans available in amounts less than $1,000. For amounts that low, interest is 19%. Most banks only make personal loans in amounts greater than $2,500, with rates for an unsecured loan in the 13% range. To get rates under 10%, loans must be secured against a certificate of deposit or at least an account balance equal to the amount of the loan. The only types of credit available from these banks is overdraft protection with rates comparable to credit cards (18%-20%). In addition to the inappropriate loan products, fees are high. Also, the lowest minimum balance required for a checking account amount the major banks was $400.

The other credit unions in the Geographical Area are either

church-based, having membership limited to the congregation of the church, or associational, based on membership in unions or employment in the District government.

Perhaps the most dramatic factor in the examination of the use and availability of banking services in the Alianza FCU geographic area is the evidence provided by the events following the demise of the Latin Investment Corporation, an unlicensed "bank" that operated in the community for a period of years. In 1990 the LIC went bankrupt and the officers disappeared. Only four months ago these individuals has been brought to trial, but given very light sentences. Three thousand families lost 6.2 million dollars in this tragedy, the result of a few unscrupulous individuals taking advantage of the community's distrust of mainstream banking institutions. This community saves a great amount of money. However, before Alianza FCU was chartered last year there is no institutional structure available for the community to use in accomplishing its goals of savings and capital accumulation.

Most of the major corridors of the area are classified as underserved by the D.C. Office of Banking and Financial Institutions (OBFI). Furthermore, in a study completed by the Metropolitan Washington Planning and Housing Association entitled "Summary of Bank Lending Practices in the District of Columbian", Ward 1 ranked fourth in total mortgage lending by ward. However, evidence suggests that the money lent in those wards was directed primarily at the upper income, better-served tracts in the wards. In Ward 1, although 55 % of tracts qualify as underserved, lending to these tracts constituted only 12.2 % of lending in the ward.

Our objectives for 1994

An analysis of the pledge forms submitted by our supporters yielded a list of priority services that the community considered that Alianza FCU should offer. The most demanded services were savings accounts, draft accounts, and check cashing. In terms of types of loans, auto loans were most popular, followed by loans for education, home purchase, and personal loans to pay for medical expenses.

After reviewing such demand and the profile of our communities, the Board of Directors decided that in the first half of 1994, Alianza FCU will focus only in promoting basic savings and that by September lending services such as personal loans and small home repair loans will start. In addition, products like savings bonds, money orders, and wire transfers abroad will be offered from the beginning. Credit counseling and other financial education will take place to prepare members to handle more advanced products in a responsible way. Members with poor credit histories were to be encouraged to save regularly and to apply for share-secured loans as a way of building a stable financial track record. Only after an evaluation of our first year will Alianza to approach the possibilities of loans for larger home repairs, small home-based businesses, education, and car purchase.

Our performance

Before opening eight months ago, Alianza FCU has developed partnerships with financial institutions such as First Union Bank in order to enlarge its deposit base and with equity intermediaries such as the Local Initiatives Support Corporation (LISC) to establish appropriate physical facilities for financial services. The support of the Government of the District of Columbia has been key to ensure continuity in administrative support for the next three years.

Our progress is on target but slow if compare with other mainstream associational credit unions for one simple reason: the community of Latinos and other immigrants settled in our neighborhoods need to trust the system again. Our yardstick is the growth of Hospitality Community FCU, the only other low income credit union in Washington, D.C. located in H Street, N.E. It took them 24 years to reach to more than 6,000 members. We have more than 100 members and operations above $120,000. The future look hopeful.

TESTIMONY
OF THE
CONSUMER BANKERS ASSOCIATION
AND
AMERICAN BANKERS ASSOCIATION
BEFORE THE
SUBCOMMITTEE ON FINANCIAL INSTITUTIONS
SUPERVISION, REGULATION AND
DEPOSIT INSURANCE
OF THE
BANKING, FINANCE AND URBAN AFFAIRS COMMITTEE
UNITED STATES HOUSE OF REPRESENTATIVES

August 11, 1994

Mr. Chairman, members of the Subcommittee, my name is Bruce Hodge, and I am Vice President and Community Reinvestment Coordinator of First Union Corporation, located in Charlotte, North Carolina. Nationally, First Union is the ninth-largest banking company, with $72 billion in assets, and 1,300 bank branches in seven states and the District of Columbia. I am also a member of the Consumer Bankers Association's Community Reinvestment Committee. I am presenting this testimony on behalf of the Consumer Bankers Association ("CBA")[1] and the American Bankers Association ("ABA")[2] (collectively, "Associations"). The Associations appreciate the opportunity to appear before the Subcommittee to offer our views on the current availability of basic banking products and services within the U.S. banking industry. The Chairman and the Subcommittee are to be commended for holding this hearing on these important issues.

Despite the business challenges over the last two decades, banks have remained committed to providing affordable banking services to all segments of the population. We believe that any person who so desires should have access to affordable basic banking services. For the reasons detailed in this testimony, the Associations believe that nearly all banks already offer such services and many are seeking new and innovative ways of continuing to address the financial services needs of their communities. Moreover, other efforts are being initiated by various government agencies to enhance services to federal benefit recipients through electronic benefit transfer ("EBT") programs, and the Associations are working closely with the Federal EBT Task Force.

It is clear that the predominant number of financial institutions across the country offer basic banking services. Further, banks continue to develop creative and flexible approaches to reach those in their communities that are not currently involved with traditional banking services, including educational outreach and financial counseling services to acquaint residents with bank products and services, outreach to ethnically diverse communities, and educational projects in public schools.

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1 CBA was founded in 1919 to represent retail banks nationwide. Today it represents approximately 750 federally insured bank holding companies, banks and thrift institutions that hold nearly 80 percent of all consumer deposits and more than 70 percent of all consumer credit held by federally insured depository institutions. CBA's focus is on retail issues, including deposit, investment, and lending products and services. Its membership includes bank holding companies, regional, super-regional, and money center banks, thrifts, and credit unions.

2 The ABA is the only national trade and professional association serving the entire banking community, from small community banks to large bank holding companies. ABA members represent approximately 90 percent of the commercial banking industry's total assets, and about 94 percent of ABA members are community banks with assets of less than $500 million.

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BASIC BANKING SERVICES

Financial institutions have made great strides in meeting the basic banking needs of low- and moderate-income consumers. For years, many banks have offered some type of basic banking service, and surveys done over the last ten years show that more and more depository institutions are providing such services. In the Spring of 1993, for example, CBA conducted a survey of its members to determine the availability of basic banking accounts. The institutions responding to the survey included banks, thrifts and holding companies representing a broad cross-section of U.S. depository institutions. Of those institutions surveyed, 94.6% offered basic banking accounts. This is consistent with previous surveys over the past ten years.

In addition, results of an informal survey conducted by CBA of depository institutions in large cities with high concentrations of low-income families, presented by CBA at an October 17, 1989 hearing on these issues, indicated that a variety of basic banking accounts were being offered in virtually all of the fifty cities with the highest populations of low-income families.

The 1993 CBA survey also addressed significant features of the basic banking accounts offered by its respondents. It became apparent that banks charged minimal to no fees in providing basic banking services, nor do most require minimum balances. For example, fixed monthly service fees charged by financial institution respondents for basic banking accounts average $3.14. Furthermore, not all financial institutions assess monthly service fees for basic banking accounts. Instead, such institutions will forego the fees if a customer agrees to direct deposit of payroll or government assistance checks. Clearly then, the cost of such accounts do not act as an obstacle to accessing these basic banking services.

The survey revealed that, in order to control costs, many financial institutions are turning to direct deposit and urging all customers to use this electronic funds transfer ("EFT") technique. In fact, many banks and thrifts offer free checking services to customers who agree to the direct deposit of payroll and/or government checks. The federal government has been encouraging the recipients of federal benefits to utilize direct deposit. In fact, Vice President Gore has made the development of "electronic benefits transfer" ("EBT") a priority. Consumers benefit from the increased use of EBT, since it reduces the risk of lost or stolen checks and ensures immediate access to funds, and exposes consumers to other bank services as well. EBT, which will be discussed in more detail later in this testimony, is growing rapidly.

The 1993 CBA survey also confirmed that the vast majority (92.8 percent) of financial institutions that offer basic banking services do not impose any minimum balance requirements.

The survey also found that most financial institutions that offer basic banking services allow customers to write a set number of checks without charge and assess modest fees for each check written in excess of that number. CBA survey results indicate that 72.7 percent of the responding institutions offer free check-writing privileges, up to an average of 10 checks each month. In addition, 10.8 percent of the respondents offer unlimited check-writing on basic banking accounts. Therefore, 83.5 percent of the respondents offer either a limited or unlimited number of free checks per month.

The 1993 survey indicated that financial institutions use a variety of methods to market basic banking accounts and an overwhelming majority of financial institutions (98.6 percent) provide assistance to consumers who are unsure of how to manage a checking account. The most common marketing methods include community outreach programs; special seminars; direct customer contact; Community Reinvestment Act materials; brochures; direct mail campaigns; general media advertisements; targeted media advertisements (e.g., church or community association bulletins); point of sale materials; and tell-a-friend coupons.

But the statistics only tell part of the story. It is where the individual and the bank make contact that the rest of the story is told. More and more frequently, we are hearing of innovative programs by banks and others to reach out to individuals not currently involved in traditional banking. We would like to share with you a few examples that illustrate how banks' flexibility and creativity are helping them reach more low- and moderate-income consumers.

At my own institution, First Union, we are committed to providing a full array of banking products and services to all portions of our communities, including low- and moderate-income neighborhoods. Approximately 25 percent of our branches are located in low- or moderate-income census tracts. We have announced this summer that we will open a new, full-service bank branch later this year in Anacostia, a low- and moderate-income area of Washington, D.C. When the new branch location was announced, First Union's Washington-area president stated, "The hard-working residents of the central city represent an excellent customer base for a number of businesses, including banks."

Many other avenues have been explored by banks seeking to provide access to accounts for all members of their communities, some of them quite creative. One large New York bank, for example, has had a program in place since 1992 to offer banking accounts to the several thousand homeless veterans who live in the city. More than 350 vets have already taken advantage of the service, making

it possible for them to save money and experience a greater sense of economic viability.

In Nevada, another bank offers a Check Cashing Assistance Program, to provide basic banking services for residents of eight shelters for the homeless in the Las Vegas area. Residents of the shelters who are enrolled in work programs are issued an identification card which can be used to cash payroll and government benefit checks at fifteen of the bank's branches in Las Vegas. In addition, the bank opens a savings account free of normal service charges for six months and issues an ATM card to individuals who qualify for the program. A similar program involving seven branches and four shelters is available in the Reno-Sparks area of the state.

A bank in California has a unique approach to providing basic banking services to previously "unbanked" individuals. When these new customers present their bank-issued ID cards, a magnetic stripe allows the bank to pull up a digitalized picture and an account transaction history. The customer can quickly cash checks, access a savings account and complete other transactions. The customer also receives a discount on services such as money orders and wire transfers. This program has been good for the customer and the bank. Individuals gain access to vital financial services, and at the same time the bank has developed a cost-effective program to educate potential customers. Once they are familiar with the process of using bank services and have learned of the variety of available products, they will have formed an on-going relationship with the bank and may return for their first mortgage or small business loan.

In addition, banks all over the country sponsor community outreach seminars in low- to moderate-income areas by visiting various housing projects, church groups, and community organizations. This kind of outreach provides a forum for educating the community about financial services and making information available about basic banking products in a familiar setting. It also provides an opportunity for the bank to determine local needs and tailor their products and services to meet those needs.

Outreach to minority and ethnically diverse communities forms a major part of the efforts of many institutions. One bank shared with us their efforts to assist Native Americans within their community. Bank officers and employees traveled to the Seminole Indian reservation to assist tribal members in understanding the financial services available to them. Counseling was provided on various savings plans and accounts were opened while at the reservation to facilitate the process for the members.

Another bank located in a market with a substantial Haitian population learned, through its outreach efforts, that this market was principally interested in savings plans. Working with a local Haitian community organization, the bank hired a Creole translator to assist banking personnel in conducting seminars on "How to Open a Savings Account." The seminars were held in the evenings in a local branch and accounts were opened for the participants after the seminar.

EDUCATIONAL OUTREACH

Many banks have found that there is a lack of education about banking and money management in many communities that may be contributing to the difficulty of providing appropriate products and services where they are most needed. As a result, banks have increasingly been conducting educational seminars and clinics on opening and maintaining bank accounts, budgeting, and money management.

At First Union, we also recognize this need. We are actively involved in financial counseling and other educational outreach. For example, First Union provides training services and credit management free of charge to high schools throughout our eight state region. We have received consistently positive feedback from teachers who have used this program. The program, "Choices and Decisions," is designed to help students start off on the right foot in managing money and credit. Many other banks have instituted similar programs.

Another bank with a D.C.-area presence has sponsored a program in the greater Washington area called "How to Do Your Banking." The program, which costs the bank over $25,000 a year to run, has reached over 18,000 students at 300 area high schools. Still another bank, in just the first half of 1994, has facilitated 73 "Banking Basics" classes nationally, with over 60 partners, including the NAACP and ACORN. Over 1800 participants have completed the classes.

A number of banks have found creative ways to teach money management by opening "banks" or "branches" in local schools. One such program was started by a regional bank in the Southeast back in 1991. A business partnership was formed with a local middle school to establish a "finance academy" at the school. The academy was created to bring to the middle school student an opportunity to acquire basic competency in studies related to the financial services industry and to enhance their understanding of personal financial planning. The academy course offerings culminate in the students participating in a student-run bank at the school. The bank resembles a modern banking facility, with tellers, customer service representatives, and loan and management personnel.

It is operated by eighth grade students enrolled in the finance business and law magnet school programs. The bank houses "accounts" for all the students, who have an opportunity to earn play money through a school based rewards system. The school bank was created with the donation of in-kind services, more than 1000 hours of volunteer time, and recycled equipment from the bank and local vendors.

A national bank in Portland, Maine is working with even younger children to teach the fundamentals of maintaining a bank account and managing money. They helped to set up a branch in an area elementary school, where the students can deposit small amounts of money. The "branch" is staffed by the teachers, who use the opportunity to teach money management skills.

One bank has taken the relationship with a local school one step farther. It has created an "adopt-a-school" program, in which a public school within a lower income neighborhood is chosen for concentrated assistance, mentoring and resources. In Washington, D.C., the bank has adopted an elementary school in Anacostia. To date, the bank has held a job fair and various seminars, and has provided a variety of donations, including a $3,000 grant to the school for direct assistance to the students. The grant money is used to supply emergency clothing, such as warm coats, boots, and shoes, that many children lack.

One small program that makes a big difference is occurring in San Diego, California. The manager of a bank branch in one of San Diego's most blighted neighborhoods, Barrio Logan, has, for the past four years, invited classes of adult students to come into the branch to learn how banks work. The primarily minority and low-income students spend the three-hour session learning the purpose of checking and savings accounts, how ATM machines work, and where their money goes when they make a deposit.

OTHER INITIATIVES

Since check cashing services remain popular in some communities despite the availability of low-cost bank accounts,[3] banks have also undertaken initiatives to provide check cashing services to their communities and to attract the customers who may unnecessarily rely on non bank check cashing services.

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[3] See CBA's Check Cashing Services Study, The Roper Organization Inc., December 1989

As an example, in Massachusetts, about 200 banks have signed up for a Massachusetts Bankers Association program under which banks cash non-customers' welfare checks for a maximum fee of 50 cents. As part of the agreement with the banks, the welfare department issues checks every day of the month, so there is no one day when the bank is swamped with welfare checks to cash. This has alleviated one of the concerns banks have with cashing government checks for non-customers -- the potential for overcrowded lobbies.

Another major concern -- the potential for fraud loss -- has also been addressed by the Massachusetts program. The welfare department issues photo identification cards and guarantees reimbursement to banks for phony or stolen checks cashed.

In addition to providing the services that are needed, the banks hope that, as they learn more about the services and products offered by the bank, many of the people who make use of the service will open accounts.

ELECTRONIC BENEFITS TRANSFER (EBT) INITIATIVES

In addition to the financial institution initiatives described above, the federal and state governments along with financial institutions, networks and other providers have been working together to establish a nationwide electronic delivery system of government benefits. The Electronic Benefits Transfer program, commonly referred to as EBT, expects to have an eight state prototype up and running by March of 1996. EBT should be available nationwide by March 1999.

The programs will allow recipients to access their benefits from ATM's and Point of Sale (POS) terminals, giving more persons an opportunity to use and feel comfortable with these services. The types of benefits that will ultimately be available through EBT include, food stamps, Aid to Families with Dependent Children, Supplemental Social Security Income, Old Age, Survivors and Disability Insurance, General Assistance, Unemployment, Energy Assistance, Railroad Retirement, Veterans Benefits, Federal Pensions, Military Pensions, and the Women, Infants and Children program benefits.

Vice President Gore has made this program a priority of his "Reinventing Government" and "Information Superhighway" initiatives. The Vice President has shortened the time frame for the development of EBT and established a Federal Task Force to encourage its acceptance. A nationwide EBT program will greatly improve the quality of service to beneficiaries through administrative efficiency, cost efficiency and security.

Nine EBT pilot programs are in operation across the country, and the states are actively working to develop a nationwide system. For example, the Financial Management Service ("FMS") has expanded the Direct Payment Card ("DPC") program in the Dallas/Ft. Worth, Texas area. The DPC program has been offered in the Houston area since April 1992. As of March 31 of this year, 10,000 federal benefit recipients have enrolled, along with the 1,200 recipients who enrolled in Dallas. Participating program beneficiaries include Social Security, Supplemental Security Income, Civil Service Retirement, Railroad Retirement Disabilities and Annuities and Veterans Pension and Compensation recipients. The Dallas/Ft. Worth DPC program charges a $3.00 monthly service fee for one ATM transaction and unlimited point of sale usage.

FMS is piloting the DPC Program as an EFT payment mechanism for federal benefit recipients who do not have bank accounts. The program is being marketed through informational inserts with the monthly checks recipients currently receive. Financial institutions either alone or through their networks and affiliates have been involved in most of the EBT pilot programs. The CBA's EFT Committee developed a white paper which identified the issues that had to be addressed (from a bank's perspective) to establish a successful EBT program. The ABA has formed an internal task force to work with the Federal EBT Task Force in several areas, including beneficiary education, operating rules and standards, and industry participation in the development of EBT nationwide.

In summary, EBT is an innovative delivery system that will make bank and bank-like products more widely available, improve the financial security of benefits recipients, reduce fraud risk, and bring many new customers into traditional banking.

CONCLUSION

Low-cost basic banking accounts are readily available to consumers in every region in the country, and it is well documented that the availability of these accounts has dramatically increased in the last few years. In addition, the majority of banks cash government checks for non-customers for fees considerably less than those charged by check cashing outlets. Customers have a variety of options to choose from when shopping for a basic banking account, and direct deposit, which is safer and more convenient than paper checks, is almost always available to those customers. In fact, most institutions encourage its use.

Institutions are trying new approaches to making basic banking, check cashing and other financial services accessible to lower-income communities. In particular, education and counseling are now widely employed by banks throughout the country to teach basic banking and financial skills to those who may need it. In addition, new ways of delivering government benefits are constantly being explored and implemented by the public and private initiatives.

We remain committed to identifying new programs to improve the banking industry's ability to meet the needs of low- and moderate-income consumers, and to increasing the availability of basic banking services and continuing the development of electronic benefits technology. Banks are responding to their communities' needs. Of course, more needs to be done, but as long as banks have the flexibility to assess the needs and creatively respond with innovative programs that work for their local communities, both the banks and their new customers will benefit.

Thank you for the opportunity to present our views to the Subcommittee on the important issues of the accessibility of basic banking products and services.

The poor pay more ... for less

Part 4:
Financial Services

A report by **Mark Green,**
Public Advocate for the City of New York

April, 1994

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and Investigations

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I. EXECUTIVE SUMMARY

Most middle-class New Yorkers take banks for granted. They open checking accounts when they start their first job or leave for college. As savings accumulate, they open savings accounts or certificates of deposit. Mortgages, home equity loans and bank mutual funds may follow.

Most residents of New York City's lower-income neighborhoods, however, have a different experience. Instead of a bank, they patronize an expanding network of licensed check-cashing outlets for their financial services needs. There, the working poor pay several times more to cash a check and pay their bills than if they used a bank -- typically $500 vs. $60 a year for a two-income family -- a disparity that has been widening since 1993, when the New York State Banking Department approved a 22% increase in check-cashing fees.

This study of the availability and price of basic financial services in lower-income neighborhoods of New York City has also found that the increase in the number of check-cashing outlets coincided with a sharp decline in the number of full-service bank branches. The inconvenience of doing business with one of the few remaining bank branches coupled with dramatically increased bank fees has made it impossible for many residents of lower-income communities to use banks.

A two-tier financial services system has developed: low-income and working-class New Yorkers use check-cashing storefronts that are sometimes dingy and unsafe, and everyone else gets the benefit of full-service banking. These state-licensed check cashers annually cash $10 billion worth of pay checks and government checks, distribute $1.5 billion in public assistance payments, disburse food stamps, sell money orders and lottery tickets, transmit funds and electronically pay utility bills for their customers. But they do not offer checking or savings accounts.

More specifically, this study has determined that:

- **The New York City area's bank branch network has been substantially reconfigured during the last 15 years, with a severe erosion of branch networks in low-income areas and continued expansion in the suburbs.** Since 1978, the number of New York City commercial bank branches declined 7.4%, while suburban branch networks grew by 10.3%. The greatest reduction occurred in Brooklyn (14.3% loss) and the Bronx (19.9%).

This study focuses on Brooklyn and the Bronx, where the reduction in bank branches affected lower-income communities far more than moderate-income and affluent communities. In the poorest one-fifth of Brooklyn zip code areas, nearly as many banks closed their doors since 1978 as now remain, while in wealthiest two-fifths of the borough the number of remaining branches is at least four times as many as the number which closed. In the poorest fifth, there were 24 branch closures but no branch openings. 15 of the 25 bank branches that opened in Brooklyn since 1978 are in the wealthiest fifth of zip code areas.

As a consequence of this skewed branch closure pattern, Brooklyn now has a ratio of 18,333 residents to every branch in the poorest fifth of zip code areas compared to 4,250 per branch in the wealthiest fifth. Lower-income communities such as Williamsburgh and East New York have lost most of their banking infrastructure. Pitkin Avenue in East New York, for example, has experienced four branch closures in recent years, leaving only three remaining.

The pattern has been similar in the Bronx. There are 24,684 residents per bank branch in the poorest two-fifths of Bronx postal zip code areas -- only 19 banks for 469,000 people. In contrast, there are only 6,958 residents per bank in the wealthiest two-fifths of zip code areas, or 61 banks for 424,000 people.

A recent increase in closure activity is being prompted by recent bank mergers and consolidations, principally the merger of Manufacturers Hanover Trust Company and Chemical Bank, which is leading to consolidation of some 70 branches, some in low-and-moderate income communities.

Because so few banks remain in lower-income communities, State legislation enacted in January 1994 requiring all banks to offer lower-cost "lifeline" checking accounts will be of limited benefit to the people who need it most.

- **Population growth was not the factor which led to expansion of the branch network in suburban counties;** population actually declined in Nassau County or remained essentially level or expanded almost imperceptibly in Westchester or Suffolk Counties, yet bank branches increased 6.3% in Nassau County, 8.6% in Westchester County and 9.1% in Suffolk County since 1978. In New York City, however, *increasing* population in the Bronx and Brooklyn did not forestall branch network shrinkage.

- **Licensed check cashers are entirely an urban, and especially an inner-city and New York City, industry.** Nearly nine out of ten licensed check cashers in New York State are in New York City; and within New York City, the vast majority of check cashers are in lower-income neighborhoods. In Brooklyn, for example, nearly 60% of check cashers are in the two poorest fifths of zip code areas, and 75% are in the three poorest fifths. There are 7,833 residents per check casher in the poorest one-fifth of Brooklyn zip code areas and 27,728 residents per casher in the wealthiest fifth.

- **There is an inverse relationship between check cashers and bank branches.** For example, in the poorest one-fifth of Brooklyn zip code areas the number of residents per bank branch is twice the number per check casher. In the top fifth, however, the distribution is more than reversed, with the number of persons per check casher more than six times the number per bank branch.

- **The number of check-cashing outlets in New York State has expanded dramatically over the past decade, climbing steadily from 353 establishments in 1981 to 496 in 1993 and 510 in March 1994 – a 44.5% increase overall.** Since 1981, the number of checks processed has increased by 30%, and millions of electronic public assistance benefits transactions a year were added starting in 1985.

Most of this expansion has occurred recently; the number of outlets has grown by nineteen percentage points since 1990 alone. The number of check-casher licenses issued annually by the Banking Department has increased from fewer than 20 per year from 1980 to 1985 to 62 licenses in 1990, 34 in 1991, 33 in 1992 and 47 in 1993. Check cashing is one of the few growth industries in lower-income communities.

Among the interrelated causes for this expansion are:

a) Shrinkage of the bank branch network, sharp hikes in bank service charges, and inadequate service at bank branches in lower-income neighborhoods. The withered branch network in lower-income communities often leaves little alternative to check cashers. The executive director of the New York State Check Cashers Association, industry ascribes the expansion primarily to the closure of bank branches and increases in bank retail fees. The owner of a New York City check-cashing chain interviewed for this study agreed: "It's hard to go to a bank that isn't there. Check cashers exist because of a need. We didn't create the need. We're just filling a gap." And the owner of another chain, when asked the main reason for the industry's expansion, replied,

"Because a lot of banks moved out of poor neighborhoods."

The significant expansion in the number of checks cashed began in 1983 and 1984, concurrent with a wave of New York City bank branch closures. The growth in the number of check-cashing outlets began in earnest in 1987, the same time as a second wave of bank branch closures hit lower-income neighborhoods.

Dramatic increases in bank account service charges during the past decade have also discouraged bank patronage in lower-income communities. And, even though many residents would benefit from "basic" or "lifeline" checking accounts, they don't know they exist or they have not been promoted sufficiently. Furthermore, the perception and the reality is that steep increases in bank fees will severely erode a modest savings account within a year. These drawbacks are only magnified by the fact that any checking account is beyond the reach of many lower-income people because they live from one paycheck to the next.

Check-casher owners and community leaders we interviewed further attribute industry expansion to inadequate service provided at the bank branches that remain in poor communities. Banks refuse to cash checks for non-depositors and, even for depositors, require balances greater than the amount of the check being deposited in order to receive immediate cash. Long teller lines in poor neighborhoods and infrequent provision of extended or Saturday hours -- which are often provided elsewhere --- further discourage patronage. Many lower-income people are intimidated by banks and banks do little to overcome this fear. Banks, consequently, have opened a window of opportunity for check cashers. In contrast, check cashers are everywhere and offer a veritable mini-mart of bill-paying services and merchandise.

Indeed, since check cashers operate with lines of credit extended by banks and are serviced every day by banks, the banking industry has played a significant role in helping the check-cashing industry expand.

b) Check-cashing fee increases. In 1988, the New York State Banking Department increased the maximum fee that can be charged to cash a check from .75% of the face value to .9%. In January 1993, the fee was increased again, to 1.1%. Check-cashing owners interviewed for this study believe that these hikes encouraged some new industry entrants.

c) Ending geographical restrictions on new check cashers. In 1989, the New York State Court of Appeals ruled that the Banking Department could no longer deny a license to operate a check-cashing outlet on the basis that it would be too close to an existing outlet and result in "destructive competition." Our analysis has shown that the number of check-cashing licenses issued increased considerably in the year after the ruling and that many new check cashers decided to locate near existing outlets in order to share in the very healthy profits earned at these formerly protected and favored locations.

d) Transfer of virtually all public assistance benefits distribution from banks to check cashers. During the early 1980s, public assistance checks were drawn on a Manufacturers Hanover Trust Company account and could be cashed for free at over 140 of the bank's branches. Although 25% of recipients used this service, many others opted for check cashers since teller lines were long and branches often inconvenient -- despite the check-cashing fee. But in 1984 -- over the protests of New York City officials -- Manufacturers Hanover reduced to only 44 the number of banks cashing public assistance checks, leading many recipients to switch to check cashers.

When the Electronic Payment File Transfer (EPFT) system for distributing benefits was instituted in 1985 (recipients are given encoded cards to be swiped through a reader, and the City picks up the processing fee), the City arranged to pay check cashers to handle these transactions for free. The NYC Human Resources Administration equipped 40 Manufacturers Hanover branches and several hundred check cashers with EPFT terminals. And still more bank users switched to cashers. Now, other than these check cashers, only 27 branches of Chemical Bank (successor to Manufacturers Hanover) handle EPFT transactions.

- **The "poor pay more" because check cashers cost much more than most banks for most customers.** A check-cashing customer earning a before-tax annual salary of $17,000 will likely pay almost $250 a year for a typical market basket of basic services. At Citibank and Chemical Bank, using a "budget" checking account, she would pay between $60 and $70 a year for the same market basket and only $47 at Bay Ridge Federal S & L. A family with two breadwinners and a combined income of $45,000 would likely pay nearly $500 a year to a check casher. They would pay about $100 for the same services at Citibank and $109 at Banco Popular. They would pay even less at Bay Ridge Federal S & L ($65) and about at Home Savings of America ($64), but such less-expensive banks do not have branches in lower-income neighborhoods.

The poor also pay more because virtually none of the 25 least-expensive banks for consumers have branches in lower-income neighborhoods, according to the annual NYC bank scorecard issued jointly by former Consumer Affairs Commissioner Mark Green and State Senator Franz S. Leichter. The report ranks 50 banks on the basis of their retail service charges and deposit interest rates.

Although bank fees increased greatly over the last decade, many middle-class and affluent customers still maintain sufficient balances to qualify for entirely free checking. Even with recently increased bank fees, most banks are still significantly less costly to use than a check casher.

- **Heavy reliance on check-cashing outlets as a substitute for banks exposes residents of low-income areas to robbery.** Since check-cashing stores do not have guards or even video cameras in the waiting area -- and the employees stay barricaded behind steel and bullet-proof glass walls -- patrons are sometimes victimized by criminals loitering inside and just outside the store. And, with no savings account to hold excess cash, residents of lower-income communities carry and keep at home large sums of money.

Remedial action is necessary to ensure that all New Yorkers have access to reasonably priced financial services. The following recommendations seek to encourage creation in lower-income areas of safe and secure basic financial services alternatives that will cost customers less to use than licensed check-cashers -- and can encourage savings to boot.

- **Alternative community financial services institutions -- such as community development credit unions -- should be encouraged to enter the check-cashing business,** either by purchasing existing check cashers or starting their own. Non-profit financial institutions could charge a little less for this service than check cashers. Even more important, check-cashing patrons might be encouraged to open an interest-bearing deposit account when they visit a credit union to cash a check. And any profits the credit union earns on check cashing and money order sales would be recirculated in the community through the credit union's loans.

New York City should encourage the development of community development credit unions by depositing public funds in them. In addition, NYC should authorize them to distribute public assistance benefits, which would provide a steady revenue stream, generate foot traffic and possibly lead to public assistance recipients saving a few dollars in a deposit account. Additionally, the $1,000 limit on the amount of money public

assistance recipients are allowed to save should be increased to allow for individual development accounts (IDAs), a concept that has been endorsed by President Clinton. Individual development accounts permit additional savings for specific purposes, such as paying for school or buying a home.

In a plan announced this year, the federal government, seven foundations and three corporations pledged $750 million in lending and spending to community development corporations (CDCs). This source could also be applied to help start community-owned licensed check cashers, which could charge less and keep profits in the local community.

- Alternative financial institutions are not the entire answer. **Consideration should also be given to allowing banks to arrange with check-cashing outlets for bank customers to not only cash checks but, as agents, also to accept deposits in bank savings accounts.** Chemical Bank is now investigating how it can set up such a program. Secured credit cards might also be offered. Using check cashers as a financial services distribution point would finally bring low-and-moderate-income persons -- many of whom do not understand or trust banks -- into the banking system.

- **Legislation to require banks to cash government checks for non-depositors should be enacted.** A bill introduced in Washington in 1991 by Senator Howard Metzenbaum would require banks to cash government checks for Social Security, veterans benefits and tax refunds of $1,500 or less for individuals who pre-registered for such a service; banks could charge a fee to cover their costs.

- **Proposed federal Community Reinvestment Act (CRA) regulations should take into account whether appropriate bank services are being offered.** Under proposed new federal CRA regulations, when determining a bank's CRA rating, the government will review how accessible the bank's branches are to low and moderate income areas, the bank's record of opening and closing branches, and the quantity, quality and types of services offered to low and moderate income people as compared to higher income people. Based on a bank's record in extending credit and providing services, a rating of "Outstanding," "High-satisfactory," "Low-satisfactory," "Needs to improve," or "Substantial non-compliance" will be assigned.

The proposed regulations should also include as a very important element in assigning a CRA rating: whether a bank's services in lower-income areas respond to the particular financial services needs of the local population, that is, whether the services offered are

appropriate in a lower-income area and whether they respond to the daily financial services needs of local populations. Among questions that regulators should answer are: Does the bank cash for non-depositors social security, veterans benefits and other government checks for non-depositors with proper identification and who have registered for a check-cashing service? Does the bank offer a real "lifeline" checking account? Are savings account fees so high as to severely erode a small savings account after a year if new funds are not added? The Office of the Public Advocate will prepare comments on the proposed regulations for the U.S. Office of the Comptroller of the Currency proposing inclusion of these considerations.

Boston's BayBank is setting the standard for serving lower-income neighborhoods, opening at least five new full-service offices and installing at least 25 ATMs in poor communities in the last few years. Baybank is competing head-to-head with check cashers. New York City banks could follow its example.

Millions of New Yorkers lack access to bank services. Check cashers are filling a real financial services need; they provide not only a place to cash checks, but also a place to pay bills. Still, the solution to the problem is not to open still more licensed check cashers identical to those already in existence; they have been kept in business largely with periodic fee hikes and a near-monopoly on the distribution of public assistance payments. The answer, instead, is to create not-for-profit check-cashing facilities that charge as low a fee as possible, encourage savings, and recirculate profits back in the community. Low-income and working-class people will never be able to build assets and pull themselves out of poverty unless they have a safe and affordable place to keep extra money, no matter how modest the savings.

This is our fourth study in four years of how the poor pay more for less -- for the food they eat, for auto insurance, for home renovations, and now for basic financial services -- that is, a series on how the private marketplace *compounds* the evil of poverty.[1] We have shown that in New York's split-level economy, only the middle-class and the affluent have the wherewithal to pay less; in other words, one needs money in order to save money. The upshot: the progressive tax system of government is counter-balanced by regressive "poverty

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[1]The first three parts of *The Poor Pay More ...for Less* were written under the auspices of the NYC Department of Consumer Affairs: *Part 1, Grocery Shopping,* April 1991; *Part 2, Automobile Liability Insurance,* July 1992; *Part 3, Home Improvement Contracting,* February 1993.

taxes" in the marketplace. Each report in the *Poor Pay More...for Less* series advances recommendations for action aimed at curbing and eventually eliminating the penalty that poor consumers pay, *de facto*, because of their residence or their race.

II. DISAPPEARING BANKS

A. Background

During the 1960s, New York City banks, especially the larger money center commercial banks such as First National City Bank (Citibank) and Chase Manhattan Bank, greatly expanded their branch networks, opening branches not just in affluent areas such as the Upper East Side, but also in many of the City's working class neighborhoods.[2] Under the tightly regulated banking system that existed then, the chief goal of banks was to gather the most deposits they could, on which they paid a relatively low government-controlled interest rate. Profits were just about guaranteed. And banks built branches almost everywhere and nearly every New York City had easy accessibility to a bank because all of a bank's branches -- wherever located -- contributed to this pool of money, and all branches were consequently quite valuable.

This picture began to change when federal interest rate deregulation started in earnest in 1978, followed by New York State deregulation in 1980. Banks were now under competitive pressure to pay higher interest rates on accounts held by their more affluent customers, which meant that branch operations would have to make a lot more money to offset this new cost. And checking accounts and other basic services would have to make money.

Yet lower-income people can't afford many of the new financial products such as mutual funds and annuities now being promoted and on which banks earned the most significant profits. The Citibank advertising slogan, "Wall Street Comes to Citibank," may be relevant to residents of Manhattan's Upper East Side but it rings hollow to the people of East Harlem.

Now that each bank branch is expected to be its own "profit center," branches that do not meet stiff profitability standards are closed. And close branches is what banks have done.

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[2]This phenomenal growth in branch banking occurred nationwide. In 1950, out of 14,114 banks in the United States; 12,905 were unit banks and 1,241 were branch banks operating 4,721 branches. By 1980, there were 14,836 banks, of which 6,859 were branch banks with a total of 38,353 branches. Source: Money and Banking, Dudley G. Lukett, Mc-Graw Hill, New York, 1984.

While New York City's population *increased* in the 1980s,[3] the number of commercial bank branches *decreased* 7.5%, from 1,091 in 1978 to 1,010 in 1992.

These reductions were not evenly spread over the entire city. Chart II-1 illustrates that the biggest contraction in New York City's commercial bank branch network occurred in the Bronx and Brooklyn.

Chart II-1. Number of open commercial bank branches.

Borough or county	1978	1986	1987	1990	1992	% change 1978-1992
Bronx	111	98	88	87	89[4]	-19.9%
Brooklyn	175	156	153	150	150[5]	-14.3%
Manhattan	550	514	517	518	530	-3.7%
Queens	218	219	209	207	208	-4.6%
Staten Island	37	39	37	34	33	-10.9%
New York City	1,091	1,026	1,004	996	1,010	-7.5%
Nassau	290	na	308	na	328	+13.2%
Suffolk	299	na	322	na	326	+9.1%
Westchester	234	na	258	na	254	+8.6%
Putnam	13	na	14	na	16	+23.0%
Rockland	66	na	66	na	71	+7.6%
Suburban Total	902	na	968	na	995	+10.4%

Source: Federal Deposit Insurance Corporation, *Data Book of Operating Branches*, 1978, 1987, 1990, 1992 and FDIC printout of active branches by county as of February 28, 1994.

The Bronx and Brooklyn contraction occurred despite the 3.0% increase from 1980 to

[3]According the 1990 U.S. Census, New York City's population increased from approximately 7.2 million in 1980 to 7.3 million in 1990.

[4]Two more Chemical Bank branches – on Boston Post Road and East Fordham Road – are to close in June 1994, according to bank personnel. Total would be 92 branches if new mini-branches and a mobile teller branch located within health care facilities for the convenience of staff and patients are counted.

[5]152 branches if two branches opened in 1991 within hospitals and intended to serving primarily hospital staff are not counted.

1990 in the population of the Bronx and the 3.1% increase in Brooklyn population. Yet a population increase fails to explain the substantial branch network expansion in suburban counties; in fact, Nassau County lost 3.0% of its population during the 1980s and Suffolk's grew only by 2.0%.

Chart II-2 illustrates that since 1990, the number of savings bank branches -- which government data sources report separately from commercial banks -- also declined in New York City, in spite of a significant increase in Queens and Staten Island.[6]

Chart II-2. Numbers of savings bank branches.

Borough or county	1990	1992	% change
Bronx	23	20	-13.0
Brooklyn	86	83	- 3.5
Manhattan	112	83	- 25.8
Queens	72	82	+ 13.9
Staten Island	27	32	+ 18.5
New York City	320	300	-6.2
Nassau	90	87	-3.4
Suffolk	51	46	-9.9
Westchester	89	81	-9.0
Putnam	6	5	-16.7
Rockland	18	13	-27.8
Total suburban	254	232	-8.7%

Source: *FDIC Data Book of Operating Branches.*

In New York City, bank branch closures for both commercial and savings banks peaked in 1983 and 1987: While there were 14 closures in 1977, there were 35 in 1983.[7] In Brooklyn, there was only one closure in 1980, three in 1981, only one in 1982, but there were 12 in 1983. And in 1987 Brooklyn experienced 12 closures, compared to only four in

[6]Savings bank information for years before 1990 was unavailable. As the chart indicates, there were also significant declines in suburban counties. However, the overall impact on the suburban branch network was small since there are many more commercial banks than savings banks.

[7]Source: *The New Redlining, A Study of Bank Branches in New York City 1977-1984.* Margaret Stix, Community Training and Resource Center, 1985.

1986, seven in 1985 and seven in 1984. The Bronx saw six closures in 1987, after only two in 1986, one in 1985 and two in 1984. (See Appendix A for a list of all closures.)

There now appears to be a new burst of closure activity, prompted by recent bank mergers and consolidations. These merger and consolidation-induced closures have occurred in all types of communities, affluent and poor, white and predominantly people of color. But they are affecting poorer communities most because poor communities had few remaining bank branches to begin with.[8] Consolidations and mergers that have significantly altered and trimmed bank branch networks during the last five years include:

The most prominent downsizing: *In 1991, Chemical Bank and Manufacturers Hanover Trust Company announced a merger* to become what would at that time be the nation's second largest bank in terms of assets. As of mid-1993, the new Chemical Banking Corporation had shut nine New York City branches in order to reduce service overlap. Another 67 branches are to be closed in by mid-1994.

American Savings Bank. Branches of the defunct American Savings Bank were split among several other banks, including Chemical, First Fidelity (took five branches), First Federal S & L of Rochester (took one in Coney Island), Banco Popular de Puerto Rico (took seven), Republic National Bank, Queens County Savings Bank. A few branches were closed.

Banco Popular. Banco Popular purchased four branches of Bank Leumi and one of Northside Savings. Banco Popular announced it would consolidate several offices because of the purchase.

Ensign Bank. Chemical Bank took over eleven branches of the former Ensign Bank and announced that nine would be closed.

Goldome Savings. Goldome was taken over by Manufacturers Hanover and some branches were shut.

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[8]Under State regulations, instituted to avoid complete loss of retail banking in any particular community, banks wishing to close a branch must submit to the Banking Department three years worth of financial data showing that the branch is unprofitable and documenting efforts the bank made to make it profitable. The Department also considers whether the closure will leave a community bankless. This regulation appears to have slowed closure activity – although, as this report shows, most of the closures in poor areas have already occurred.

Freedom National Bank closed its several offices.

While there was a significant decline in the overall number of bank branches in New York City from 1978 to 1993, some banks nonetheless opened branches in carefully selected New York City and suburban locations. And banks new to the metropolitan region opened their doors, primarily to cater to recent immigrant populations from Asia and Latin America. These banks have situated offices in areas with large populations of these recent immigrants, especially in Queens. Among the new entrants to the New York City retail banking scene are:

Korea First Bank of New York, Queens
China Trust Bank, Queens and Brooklyn
Great Eastern Bank, Queens
Korea Commercial Bank of New York, Queens

Additional banks which have long catered to particular immigrant groups have opened new branches or taken over branches of other banks. Banco Popular de Puerto Rico, for example, now has 30 New York City branches. Independence Savings Bank specializes in serving a wide range of immigrant communities in its 21 branches. But virtually no banks of any kind have opened in lower-income zip code areas.

B. Brooklyn Branch Closure and Opening Analysis

Brooklyn, with 2.3 million residents, is New York City's most populous borough. It has an extremely diverse population, with some of the poorest communities in America, such as East New York and Brownsville, and many solidly middle-class and affluent communities, such as Brooklyn Heights and Bay Ridge.

Chart II-3. Brooklyn bank branch closures and openings, 1978-1994.

1989 median HH income	Zip code area	1990 pop.	No. of banks open, 1994	No. opened since 1978	No. closed since 1978[9]	Closures as a percentage of remaining banks	Persons per open branch
13,625	11206	74,177	5	0	2	40%	14,835
16,502	11237	47,890	3	0	1	33.3%	15,963
18,220	11211	77,445	6	0	6	100%	12,907
19,256	11221	70,546	3	0	3	100%	19,755
19,831	11233	59,267	0	0	0	na	
20,365	11212	86,809	4	0	7	175%	21,702
21,736	11207	83,577	5	0	3	60%	16,705
21,787	11232	22,526	1	0	1	100%	22,526
22,281	11216	59,161	5	1	2	40%	11,832
22,367	11205	36,897	4	0	2	50%	9,224
22,516	11239	14,901	2	0	0	0%	7,451
23,134	11208	78,154	3	0	2	67%	25,051
23,576	11224	52,314	5	1	1	25%	13,079
23,957	11213	62,666	3	0	0	0%	20,889
26,422	11219	73,272	8	2	1	12.5%	9,159
28,518	11226	111,916	8	0	6	75%	13,990
28,803	11220	76,875	4	0	2	50%	19,219
29,469	11238	43,435	2	0	0	0%	21,718
29,994	11225	66,354	2	0	0	0%	33,177
30,119	11231	31,915	4	1	0	0%	7,979
32,158	11204	64,872	9	1	2	22%	7,208
32,738	11214	73,056	15	2	2	13%	4,830

[9]Closures after which another bank later occupied the same location are not counted.

1989 HH income	Zip code area	1990 pop.	No. of banks open 1984	No. opened since 1978	No. closed since 1978	Closures as a % of remaining banks	Persons per open branch
33,326	11223	70,695	8	2	3	38%	8,837
34,534	11222	37,488	7	0	2	28%	5,355
33,712	11218	66,938	4	0	1	25%	16,735
34,929	11217	36,239	7	0	1	14%	5,187
35,209	11235	66,722	12	0	1	8%	5,560
37,121	11203	81,253	7	0	5	71%	11,608
37,195	11230	73,600	7	0	0	0%	10,514
40,481	11236	80,410	9	0	7	77%	8,943
40,884	11210	62,337	9	0	2	22%	6,926
40,920	11215	67,025	9	2	3	33%	7,447
41,340	11229	73,321	11	3	4	36%	6,665
42,142	11228	39,090	6	3	0	0%	6,515
44,761	11209	62,247	25	4	4	16%	2,489
48,458	11201	46,951	27	3	6	22%	1,738
48,627	11234	74,612	13	0	1	11%	6,782
TOTAL			266		83	32%	

Sources: Federal Deposit Insurance Corporation, New York State Banking Department, U.S. Office of Thrift Supervision, Federal Home Loan Bank Board.

The Brooklyn zip code area with the most banks is 11201. The large number of banks here is attributable primarily to the downtown Brooklyn business and civic center, which this area encompasses. The second largest number of banks in any zip code area was found in the affluent 11209 zip code area of Bay Ridge. Sheepshead Bay -- 11229 -- also has a large concentration of bank branches.

In contrast, relatively few banks remained after several closures in lower-income neighborhoods such as Williamsburg/Bushwick (11211 and 11206) -- most recently Chemical Bank closed two branches in 1993, as a result of Chemical's merger with Manufacturers Hanover Trust Company.

One of the few zip code areas in the bottom two quintiles with a relatively large number

of bank branches is 11219, encompassing the Borough Park community. In addition, Borough accounted for two of the four branch openings in the two poorest quintiles. Borough Park has a predominantly white population.

Generally, Brooklyn's lower-income areas suffered from branch closures more than other areas. Some 23 of the 83 closures in the past fifteen years -- 28% of the total -- were in the poorest quintile of branches. While there were also numerous closures in wealthier areas, with the top quintile experiencing 21 closures, the impact was much harder in the poorer communities because they started with a reduced bank branch base. Indeed, in the poorest quintile of zip code areas, nearly as many banks closed their doors as there are banks remaining. The severest branch erosion occurred in 11212 -- East New York -- and especially along Pitkin Avenue. More banks closed during this period than now remain.

The end result of fifteen years of branch closures: In Bedford-Stuyvesant (11233 and 11221) there are only three bank branches for 129,000 residents. Banks are also scarce in the neighboring zip code areas, with just three branches in 11213 and only four in 11212. And for the 78,154 residents of 11208 (East New York), there are no banks at all between the Belt Parkway and Liberty Avenue -- a distance of 14 blocks.

Within some zip code areas, the remaining banks are concentrated in the wealthier areas, leaving residents of poorer neighborhoods with long walks if they want to bank anywhere near their home. For example, the four branches in 11231 are located only on the more affluent Cobble Hill side of the Brooklyn-Queens Expressway, and none are in the low-income Red Hook community. Residents of Prospect Heights (11238) have either the Greenpoint Savings Bank branch at Lincoln Place and Eastern Parkway, or they have to travel well into the adjoining Park Slope community since Citibank closed a branch at Flatbush Avenue and Bergen Street in 1988. The three banks remaining in the East New York 11208 zip code area (Home Savings, Chemical Bank and Citibank) are located in the northern and more prosperous sector.

Chart II-4 summarizes bank branch deployment by household income.

Chart II-4. Brooklyn bank branch deployment summary, 1978-1994.

	Bottom 5th	2nd 5th	Middle 5th	Fourth 5th	Top 5th
Average population per bank	18,333	12,680	11,681	7,907	4,250
Number of bank branches	27	30	44	65	100
Average no. of banks in a zip code area	3.4	4.2	7.0	8.1	14.2
Number of branch openings	0	4	4	2	15
Number of branch closures	24	8	12	20	20
Average no. of branch closures per zip code	2.9	1.2	1.7	2.5	2.8
Closures as a percentage of open branches	89%	37.5%	36.6%	30.8%	20%

Although the number of banks that closed per zip code was similar in the top fifth and the bottom fifth, the *impact* of closures on the existing branch network was much more severe in the bottom, second, and middle fifth than it was in the fourth and top fifths, as reflected in the number of closures as a percentage of remaining branches. As for branch openings: 15 of 25 Brooklyn branch openings were in the wealthiest fifth. Meanwhile, in the poorest fifth, there were no branch openings, compared to 24 branch closures.

C. Bronx Bank Branch Closure and Opening Analysis

As the following two charts illustrate, residents of the wealthier areas of the Bronx are served by far more banks than are residents of the poorer communities. For instance, the low-income Mott Haven zip code area -- 10454 -- was left with only one bank branch for 36,000 people after it lost a Manufacturers Hanover branch in 1987. There are no branches at all in the 10456 zip code in Morrisania. The Highbridge (10452 and 10453) community has only three branches after having experienced seven closures since 1978.

The entire southern and poorest portion of the Bronx, consisting of ten zip code areas 10455, 10451, 10452, 10456, 10459, 10453, 10457 and 10460 has only 16 bank branches serving 416,000 people, or 25,750 residents per bank branch. In contrast, in the rest of the borough there are 86 bank branches or 9,116 residents per branch. Especially well-served is Riverdale (10463), with 12 branches, or 6,093 residents per branch. Approximately 40% of the borough has 60% of the banks.

Bronx branch closures have not been nearly offset by branch openings. There were only 17 openings from 1978-1994, 12 of which were in the two wealthiest zip code quintiles.

The most recent Bronx closures are a consequence of the merger of Chemical Bank and Manufacturers Hanover. Among Chemical Bank consolidations in 1993 and so far in 1994 were branches in Hunts Point (10474) and in the Parkchester Area (10462). In June of this year, Chemical will close branches on East Fordham Road (10458) and on Boston Post Road (10469), according to branch personnel.

Chart II-5. Bronx bank branch closures and openings, 1978-1994.

Median House-hold Income, 1989	Zip Code Area	1990 Population	# of open banks	# of branch closure since 1978	# of branch openings since 1978	Persons per open branch
$10,865	10454	36,120	1	1	0	na
$12,168	10474	23,071	4[10]	1	0	4,614
$12,243	10455	31,166	4	4	1	15,583
$12,728	10459	31,271	2	2	1	10,423
$13,587	10453	71,008	1	4	0	71,000
$13,616	10452	55,756	2	3	0	55,756
$14,456	10456	69,800	0	1	0	na
$15,593	10457	61,890	1	5	1	61,890
$16,095	10460	47,571	0	1	0	47,571
$18,041	10451	43,050	4	2	0	10,762

[10]Bank branches are within or adjacent to the Hunts Point Cooperative Market, presumably to primarily serve that facility.

1989 HH income	Zip code area	1990 pop.	# of open banks	# of closuresi nce 1978	# of openings since 1978	Persons per bank branch
$20,987	10458	70,022	3	4	1	17,505
$22,494	10472	61,484	2	3	0	30,742
$22,643	10468	65,742	5	1	2	13,148
$28,810	10467	85,279	8	2	0	10,659
$28,944	10473	53,758	3	2	0	17,919
$35,121	10462	61,226	11	5	0	8,746
$37,271	10463	67,030	12	7	1	6,093
$37,723	10466	59,649	6	2	0	14,912
$39,625	10475	37,077	7	4	4	7,415
$40,069	10461	45,659	9	2	4	7,609
$41,407	10469	53,781	5	2	0	10,756
$43,829	10470	12,793	2	2	0	6,396
$45,962	10465	59,649	4	1	0	14,912
$58,240	10464	4,123	1	1	1	4,123
$60,248	10471	23,481	4	1	1	5,870
TOTAL			101	63	17	

Chart II-6 summarizes how branch closures have resulted in many more residents per bank in wealthier Bronx zip codes than elsewhere.

Chart II-6. Bronx bank deployment summary.

Zip codes by income	No. of bank branches	Total pop.	Banks per zip code area	No. of branches closed since 1978	Persons per bank
Bottom fifth of zip codes	12	192,636	2.4[11]	12	16,053[12]
2nd fifth	7	276,896	1.4	12	46,344
Middle fifth	21	336,285	4.2	12	16,013
4th fifth	45	270,641	9.0	20	6,014
Top fifth	16	153,827	3.2	7	9,614

III. BANKING OPTIONS IN LOWER-INCOME AREAS

A. Banks That Offer Low-Fee Accounts Have Few Branches in Low-Income Areas

Every year since 1990, Consumer Affairs Commissioner Mark Green and State Senator Franz S. Leichter (Manhattan) have published an annual Consumer Bank Scorecard. The Scorecard ranks 50 New York City banks based on the price for several typical "market baskets" of bank services -- including account fees, deposit interest rates and the price of other basic banking services such as money orders -- with separate market baskets for low-balance, mid-balance and high-balance customers.

Despite the "lifeline" accounts offered by major commercial banks, the Scorecard finds that commercial banks every year tend to charge the highest fees and that many savings banks have relatively low fees. This is especially the case for the customers who keep lower balances. The 1993 Scorecard, for example, found that for low-balance customers,[13]

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[11]This figure is skewed upward because the four banks in this zip code are within or adjacent to the Hunts Point produce market, an industrial area, and presumably primarily service that facility.

[12]See previous footnote. If two of the four banks were not counted, then there would be 16,053 residents per bank.

[13]Low-balance customers were deemed to have an average balance of $750 for eight months of the year spread between a checking and a savings account. Each month, the putative customer wrote eight checks and withdrew money three times from an ATM. Half of the ATM withdrawals were made at another bank's ATM, thereby incurring transaction fees.

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Citibank ranked 42nd out of the 50 banks surveyed and Chemical Bank 31st; a Citibank low-balance customer would have spent $93 at the bank over the course of one year and the Chemical Bank customer would have spent $71.09.

In contrast, these same low-balance customers would *make* money at Cross County Federal Savings, Independence Savings, Ridgewood Savings, Maspeth Federal Savings, Astoria Federal Savings, Bay Ridge Federal Savings, and Home Federal Savings. And they would lose only a few dollars a year at several other banks, including Columbia Federal Savings, Amalgamated Bank, Richmond County Savings, Fourth Federal Savings, Bayside Federal Savings, Flushing Federal Savings and First Nationwide Bank.

Unfortunately for residents of lower-income communities, these inexpensive banks have no branches in the poorer areas. The only banks in lower-income communities are the more expensive ones, such as Chase, Citibank, and Chemical. Where can the truly low-cost banks (according to the DCA Scorecard) be found? In such middle-class communities as Bay Ridge (Bay Ridge Federal Savings, Gateway State Bank), Park Slope (East New York Savings), Ridgewood Queens (Ridgewood Federal Savings, Home Federal Savings), Maspeth (Maspeth Federal Savings), Flushing (Flushing Savings), and Co-op City (Amalgamated Bank).

Even when alternatives to the high-priced Citibank, Chase and Chemical are available in lower-income areas, they tend to be the more expensive alternatives. For example, in Brooklyn's Williamsburg section (11206) there are branches of Lincoln Savings Bank, Banco Popular, and National Westminster Bank. But in the DCA scorecard for low-balance customers Lincoln ranked 46th, Banco Popular 36th and National Westminster 34th. Likewise, Sunset Park residents have two other banks besides Citibank and Chemical -- Banco Popular de Puerto Rico and Anchor Savings. But Anchor ranked 40th in the DCA Scorecard.

In the Bronx, one of the few exceptions to this pattern appears to be First Federal Savings and Loan of Rochester, at which low-balance customers would have lost only $17.85 in 1993, earning First Federal 18th place among 50 for low-balance customers. Still, there are no First Federal branches in the poorest neighborhoods such as Mott Haven and Morrisania.

The upshot: Even when residents of low-income areas have easy access to a bank, they'll still pay more than many residents of middle and moderate-income areas.

B. 24-Hour Automatic Teller Machines and Saturday Banking Hours: Rarely in Lower-Income Areas

The absence of bank branches in lower-income areas means that residents who do happen to have bank accounts -- perhaps they opened them at a bank near a workplace in Manhattan -- on weekends will probably have to get cash from neighborhood banks where they have no account. Such "not-on-us" ATM transactions typically cost 75 cents or $1 while they would be free at the home bank -- that's if residents can even find a 24-hour ATM in a lower-income neighborhood.

Lower-income communities also suffer from a lack of large, modern supermarkets.[14] Increasingly, banks are locating ATMs in such supermarkets.

The absence of cash machines in poor areas also hurts the retail trade on struggling commercial strips. And it requires many residents to carry around large amounts of cash.

We surveyed the locations of 24-hour ATM machines in the Bronx. Only four of 69 Bronx banks with 24-hour ATMs are in the southern (poorer) third of the borough. Only 19% of bank branches in the southern third of the Bronx have 24-hour ATMs, compared to 69% elsewhere in the Bronx.

Another important convenience to working people is Saturday banking hours. The provision of Saturday hours is also skewed against the branches in the pooorer part of the borough. Indeed, a Citibank employee informed us that his bank does not offer Saturday hours in any of its Bronx branches, although some Citibank branches elsewhere in the metropolitan area do provide this convenience.

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[14]See *Poor Pay More for Less...Part 1: Grocery Shopping,* which documenteo that lower-income neighorhoods have fewer supermarkets per capita than middle-class and affluent neighborhoods and that the typical supermarket in poor neighborhoods is less than 10,000 square feet in size.

IV. THE LICENSED CHECK-CASHING INDUSTRY IN NEW YORK CITY

A. What Is a Check Casher?

1. *Licensed check-casher basics.*

Bankless people still need to cash their pay checks, pick up public assistance benefits and pay their rent, electric and phone bills. They do this at licensed check-cashing outlets -- small, spartan storefronts with signs announcing "Checks Cashed," "Food Stamps," and "Pay Phone Bills."

Check cashers charge a state-regulated check-cashing fee, currently 1.1% of the face value of a check, which was increased from 0.75% in 1988 and from 0.9% in 1993.[15] Since well over half the industry's customers are employed and therefore have paychecks that need to be cashed, according to the New York State Check Cashers Association, check-cashing fees are the largest revenue source for most check-cashing outlets. In recent years, however, they have begun to account for a decreasing share of total revenue, with miscellaneous and EPFT (public assistance Electronic Payment File Transfer) fee income accounting for a greater share each year.[16]

Check cashers limit their loss risk by generally refusing to cash personal checks. This policy appears to have been successful. In 1992, the industry reported to the State Banking Department that only $3.6 million worth of returned checks were written off out of $10.0 billion worth cashed.

Since 1981, check cashers have been the primary distributors of public assistance benefits in New York State, and when, in 1985, the method for paying these benefits changed with the introduction of EPFT, they assumed virtually all distribution responsibilities. Prior to 1985, the NYC Human Resources Administration issued checks to welfare recipients, which they brought to a bank or more likely to a check casher to be cashed. Under the new EPFT system, public assistance recipients are given electromagnetic cards which are run through dedicated computerized terminals at a bank or check-cashing outlet to determine the exact

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[15]Along with granting the fee increase, the Banking Department also required check cashers to give their customers receipts, which required check cashers to buy new equipment.

[16]In 1989, check cashing fees were 65.1% of total reported revenue. By 1992 check cashing fees were down to 62.4% of revenue.

amount of cash or food stamp payment to make. A voucher is printed, the recipient signs, and then receives cash and/or food stamps.

Instead of the recipient paying a check-cashing fee, as before EPFT, the City pays a set fee per transaction to the bank or check-cashing outlet. Minor fee increases averaging 2.4% a year have been provided since 1986. The present weighted average transaction fee is $2.15 for food stamps and public assistance together. The Human Resources Administration and the cashing industry report that EPFT saves the City money, even though recipients no longer pay a redemption fee, since the City no longer pays to mail checks or trace lost checks and the problem of fraudulent cashing of public assistance checks has been eliminated.

For food stamp distribution, a dedicated computer is used to verify eligibility and the amount of food stamps to be provided once the recipient's identification card has been presented and scanned.

Charges for the numerous miscellaneous services provided by most check cashers are entirely market driven. (See Appendix C for the results of a survey of service fees.) Typical services are:

Money orders. Fees range from 75 cents to $1.50 per money order, averaging around $1. About-two thirds of the money order fee is kept by the casher, and the balance goes to the issuer. To avoid problems with money launderers, check cashers generally limit the maximum money order to $500, which requires buying two money orders to pay bills of more than $500. According to the Banking Department, money orders are the check-cashing industry's third largest revenue source after check-cashing fees and fees for public assistance benefits distribution, accounting for nearly 10% of total fee revenue.

The U.S. Postal Service sells money orders for 75 cents, but Post Office lines are often very long, making regular money order purchases there an impractical alternative for persons without checking accounts.

Utility payments. Most check cashers have a direct electronic hook-up with Consolidated Edison and Nynex. The typical fee is 85 cents. Cashers do not charge for paying Nynex bills because the phone company picks up the charge. The same goes for Cable TV payments. Utility bill payment fees represent about 2.5% of check casher

revenues.

Money transmission. Nearly every check-cashing outlet has arranged with either Western Union or American Express to provide money transmission services to their customers, with the vast majority of cashers offering Western Union, according to a survey of 20 cashers. Rick Price, president of the New York State Check Cashers Association, reports that a majority of his customers use a money transmitter service -- some regularly. Western Union and American Express give a cut of their fee to the check-cashing store. Money transmission fees are the fastest growing -- albeit still a relatively small contribitor -- to check cashers' total revenues.

Money transmitters charge very high fees. The minimum Western Union fee -- to send $100 -- is $15. Fees rise sharply in increments so that it costs $34 to send $300 and $40 to send $500. Since the same effort is involved in sending $100 as, say, $300. there appears to be no rationale for the fee increments or for charging so much more for sending larger sums.

Lottery tickets. Many, if not most, check cashers sell lottery tickets.

Subway tokens. Check cashers buy boxes of New York City Transit Authority token "ten packs" at a 2% discount which they then resell to customers for full price. They buy $15 Metrocards at a smaller discount.

Electronic filing of income tax returns and tax refund anticipation loans. Logically enough, people who want instant cash for their paychecks want a near-instant tax refund as well. The casher gets a flat fee from renting space to a tax preparer who offers electronic filing and tax refund anticipation loans. In another common arrangement, a real estate or law office that prepares income tax returns refers clients to a check casher offering these supplemental tax services, often located on the same block.

Miscellaneous products and services. Additional revenue may be derived from sales of videos, key chains, lamination services, postage stamps, candy, cigarettes, passport photographs, postal mail box rental, notarization, photocopying and telefaxing -- "whatever customers want to buy," in the words of one owner. The check-cashing part of the business attracts heavy foot traffic, and patrons waiting in line to cash their checks are a captive audience.

Check cashers work closely with the banking industry, particularly with Chemical Bank and, to a lesser extent, with Citibank and European American Bank. Banks extend lines of credit to owners and clear the checks they receive, charging the average casher $3,000 to $4,000 a month.

Check-cashing outlets are not always "mom and pop" operations. In fact, most stores belong to a chain and some chains are quite large. With over 100 of the 512 New York State locations, Syosset Long Island-based Pay-O-Matic Corporation clearly is the largest.[17] Other chains include Action (seven outlets), Alivad (six outlets), David's (13 outlets), Castle (ten outlets), G & R (14 outlets), Money Centers (seven outlets), (13 outlets), Prima (seven outlets), Regina (11 outlets) and Uneeda (24 outlets).

The check-cashing stores we visited are very spare. There is nowhere to sit. The only furniture is a waste paper basket. The clerks stand behind a forboding bullet-proof glass window which is surrounded by steel plate. Some of the outlets we saw had dirty floors and could have used a coat of fresh paint on the walls. Officials of Pay-O-Matic Corporation told us that many of their newer outlets are much nicer and resemble banks. But the pictures they showed us of their newest store looked like a newer and cleaner version of the other check cashers we'd seen.

2. *Regulatory framework.*

In 1944, New York became the second state to license check cashers. Licensing was supposed to improve the tawdry image -- and reality - of a business that had been engaging in illegal money lending. In fact, according to a 1944 report of the Banking Department, one out of seven applicants for the new licenses had a police record.[18] Since there are virtually no reports of licensed check cashers engaging in illegal activities such as loan-sharking, licensing seems to have been effective in cleaning up the industry.

The licensing statute -- Article 9-A of the Banking Law -- authorizes the Superintendent to issue a license after finding that the granting of an application will "promote the convenience and advantage of the area in which the business is to be conducted." Applicants

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[17]In Brooklyn, Pay-O-Matic operates as Island Check Cashing, in the Bronx as Home Check Cashing, in Manhattan as Freeman Check Cashing and in Queens as Zerega Check Cashing.

[18]Source: *Economic Profile of the Check Cashers Industry*, Prof. Edward Renshaw, et. al. SUNY at Albany, May 1991.

are required to submit a business plan with a description of the primary market area, projected customer base, days and hours of operation, types of service to be offered, local demographics, and specific marketing targets. The applicant also must submit a letter showing a $100,000 line of credit and a personal financial statement for and evidence of the source of all investments in or loans to the business. Check-cashing stores must have at least 480 square feet of floor space.

3. *Limited stations.*

Some licensed cashers also operate limited stations under special arrangements with the Banking Department. Limited stations are check-cashing facilities open only on pay days and are located in work sites with large numbers of employees such as hospitals and factories. Appoximately one-quarter of New York City limited stations are at New York City Transit Authority facilities. Others are at nursing homes, Kennedy Airport facilities such as hangars and food preparation plants, and warehouses/distribution centers.

Charges are the same as for permanent check cashers unless the employer has a special relationship with the check casher to charge less, sometimes only 0.9% of the face value or a flat fee of $1.50 per check.

4. *Safety concerns.*

Since most check cashers are located in high-crime areas and by definition deal with large amounts of cash, hold-ups of check cashing personnel, break-ins and patron robberies are an extremely serious matter. Check-cashing executives we interviewed said that crime is a major preoccupation.

Check cashers manage to protect themselves, however. Bullet-proof counter windows are basic equipment. So are double-doors to enter the area behind the counter; the first door opens and locks behind the person entering before the second door unlocks. In order to obtain insurance coverage, cashers increasingly are required to spend $50,000 or more on a steel cage that envelopes the entire behind-the-counter area. The cage is necessary to foil break-ins through the ceilings and walls.

Unfortunately, patrons have no protection. Unlike many banks, check- cashing stores do not have guards and rarely have a video camera pointing at the customer area, leaving customers vulnerable to schemes and scams. We were told about some of these in our

interviews with community leaders and check-cashing customers in lower-income communities.

In one common scheme, two robbers work together. One stands around the check-cashing waiting room and watches for elderly customers who cash checks and anyone cashing a tax return check, which is likely to be for a substantial amount. He brushes against them and leaves a chalk mark on their backs. His accomplice waiting outside the store then follows the victims and robs them.

In another scheme, a man stands next to a customer waiting on line, staring menacingly. The customer expects to be robbed as soon as he gets his cash but is relieved and willingly complies when the menacer merely asks for the change.

Community leaders and residents of low-income communities perceive that check cashers are not safe places to transact financial business. Chief Charles Joshua, executive director of the Central Brooklyn Coordinating Council, said in an interview, "Many of these check-cashing businesses are situated in high crime areas. The security around check-cashing businesses is far inferior to security around traditional banks." A public relations officer with the 40th Precinct (South Bronx) confirmed the validity of many such fears: "People congregate in front of check-cashing stores and wait for people to cash large checks. There is a lot of loitering in these places which goes unchecked. Some of these loiterers are bad guys who follow people after they have seen them cash their checks and rob them." A detective with the 34th Precinct in Manhattan's Washington Heights said in an interview, "There was a guy held up at gun point right inside the check-cashing place an 155th Street and St. Nick [St. Nicholas Avenue]. Somebody was hanging around in the place and right after this guy cashed his check, he got robbed." And a detective with the 73rd Precinct (East New York) said that patrons of check-cashing businesses are "more susceptible to robberies" because, unlike banks "which take many precautions like video cameras," check-cashing safety "is not regulated at all."

5. *How profitable?*

The New York State Check Cashers Association claims that 18% of its members' outlets lose money. In the Association's 1992 submission to the New York State Banking Department requesting cashing fees to be increased from 0.9% to 1.25% of check face value, the Association's consultant, Ernst & Young, reported that check cashing is a "mature" industry and a recent decline in average check-cashing fees "appears to be at least partly

attributable to the well documented impact of the recession on the New York City economy." This, they added, was "largely manifest in a decline in the number of checks cashed."[19]

Owners interviewed for this report complained that the cost of security has "gone sky high," that rents have risen far faster than the inflation rate,[20] and that banks, which clear the checks for the cashers, charge "enormous and increasing monthly service fees." Rick Price, president of the New York State Check Cashers Association, adds that his members do not always collect the full 1.1% fee if a particular employer has established a "house account" with a checker to service its employees. Therefore, the Ernst & Young report stated, most check-cashing outlets earn net income of less than $50,000 a year.

On the other hand, we were told by one industry expert recently employed by a major commercial bank where he analyzed the industry that most locations are "very profitable," with total *owner/manager profits* (i.e., including owner compensation) of $250,000 considered common. "Normally, 50% of gross is dropped to the bottom line," he said. And the owner of a New York City check casher chain with 24 outlets told us, "I won't lie to you about making a very good living. This is better than I could make anywhere else." Referring to his industry's opposition to plans by the New York State Department of Social Services to expand public assistance distribution points beyond check cashers and the branches of one bank, which would threaten one of his primary revenue sources, he added, "I want to make sure I protect it."

Even the industry-commissioned Ernst & Young report admitted that there may be "some reasonable basis in some locations" to believe that official profit figures are downplayed inasmuch as there "may have [been] excessive officer (or proprietor) salary expenses" and some locations "may pay management fees in excess of associated costs of such services." Check casher locations reporting net losses were among those most likely to have such high officer salary payments and management fees.

Furthermore, according to another banking industry expert, the operating statistics the industry reports to the Banking Department probably are significanly under-reported. "This is

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[19] *An Economic Study of the Performance and Viability of the Licensed New York Check Cashing Industry*, prepared on behalf of The Check Cashers Association of New York State, Inc. by Ernst & Young, May 1992.

[20] The *Check Cashers Consolidated Statements Summary* says that rent totalled $1.7 million in 1981 and $9.9 million in 1992.

a cash business," he explained. Rick Price of the Check Cashers Association reacted angrily when told this: "We're not a cash business at all. Everything we do is recorded and microfilmed. There are slips of paper for everything we do. That charge really sparks my ire."

It seems clear, based on interviews and review of industry studies that, while some check-cashing stores may, indeed, be losing money, many locations are earning healthy profits and some cashers in the best locations are earning extraordinary profits. With check cashers selling much more than just cashing services -- indeed, with veritable mini-variety stores in some locations -- it is hard to believe that most stores and owners earn as little as the industry claimed in its 1992 fee-increase submission.

Still, the expansion in the number of check-cashing outlets appears to be putting profits under some pressure. In recent years, the total number of checks processed has not increased as rapidly and steadily as the number of outlets, resulting in less revenue per outlet. Eventually, though, it is assumed that market forces will limit the entry of so many more check cashers.

Another factor limiting unbridled expansion is the willingness of banks to finance new outlets. An owner must secure a line of credit before opening. Presumably, financers have had enough faith in the industry's prospects to have backed expansion from 353 outlets in 1981 to 510 today and would stop backing new stores if viability was truly in doubt. Nonetheless, the industry supports State legislation to limit entry by prohibiting new cashers from opening within 1,500 feet of an existing one. An additional profit pressure point is the rise of of on-site payroll services. [21]

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[21] Whatever the true profit picture, some members of Congress apparently think the industry would survive with a maximum fee of only 0.85% of the face value of a check -- 23% less than New York's current fee -- or 50 cents, whichever is greater. This is the fee allowed for in legislation introduced by Rep. Cleo Fields (D-LA). His bill requires check-cashers to be licensed by the Federal Trade Commission, although he has amended it to provide for state oversight only.

B. Check Cashing: An Expanding Industry

In March, 1994 there were 510 licensed check-cashing outlets in New York State, a 44.5% increase over the 353 outlets in 1981. From 1981 to 1992 (the last year for which statistics are available), the number of checks processed by check cashers rose by 30%. The face value of checks increased from $4.1 billion in 1981 to $10 billion in 1992. And, starting in 1985, when the City converted from paper checks to an electronic system for distributing public assistance benefits (EPFT, or Electronic Payment File Transfer system), several million EPFT transactions were added to the check-cashing industry's total annual transactions each year.[22] (See Appendix B for 1981-1993 summary statistics for the New York State check cashing industry.)

The number of limited station licenses in New York City has also risen. There were 235 limited stations in 1989 and 285 in 1994, a 21% increase. The volume of checks processed in limited stations more than quadrupled, from 228,000 checks in 1981 to one million in 1992.

A large share of this expansion occurred in the last five years, with nineteen percentage points of the 44% growth in the number of outlets since 1981 occurring after 1989. As Appendix B indicates, the significant expansion in the numbers of checks processed occurred in 1983 and 1984, declining in 1986 as the New York City EPFT public assistance benefits distribution program replaced public assistance checks. The number of check-cashing outlets began to expand significantly in 1987. There was also a large increase in the number of licenses issued around this time, from fewer than 30 a year in 1987 and before to 30 or more licenses every year thereafter.

In 1992, the latest year for which figures are available, licensed cashers cashed a record 29.7 million worth of checks in their storefront locations. They also received the most ever in EPFT fees and miscellaneous fees -- an income source that did not separately exist before 1985.

Check-cashing industry expansion is not just a New York City phenomenon. There are approximately 5,000 check cashers nationwide, nearly double the number from five years ago. In fact, expansion has been faster in many other states. According to a study released

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[22] 12.9 million EPFT transactions were handled in 1992, accounting for $1.56 billion in public assistance benefits for which check cashers were paid $26.9 million.

by the Federal Reserve Bank of Kansas City, "yellow-page listings from late 1988 to early 1991 show... the number of check cashers grew by 85 percent in Florida, 195 percent in Georgia, 96 percent in Missouri, 293 percent in North Carolina, 80 percent in Texas, and 87 percent in Washington."[23]

C. Check Cashing Is an Urban Phenomenon

The next chart illustrates that check cashers are largely an urban -- especially a New York City -- phenomenon. With 436 of the State's 496 check cashers in 1993, New York City accounted for 88% of the State's check-cashing industry.

Chart IV-1. Licensed check casher geographical deployment.

Geographical unit	# of cashers 1987	# of cashers 1993	% incr.	% of State 1993	% of NYC 1993
Kings (Brooklyn)	117	146	24.8	30%	34%
Bronx	94	112	19.1	22%	25%
Manhattan	89	101	13.5	20%	23%
Queens	53	69	30.2	13%	15%
Staten Island	5	8	60.0	1%	1%
Nassau and Suffolk	8	21	162%	4%	na
Westchester County	6	21	250%	4%	na
Rockland County	1	3	200%	0%	na
Upstate urban[24]	3	8	166%	1%	na
Other	1	7	600%	1%	na

While check cashing is, indeed, an urban phenomenon, the fastest growth lately has been in

[23]John P. Caskey, "Check-Cashing Outlets in the U.S. Financial System," *Economic Review*, The Federal Reserve Bank of Kansas City, November/December 1991.

[24] Buffalo, Rochester and Albany. There are none in any other major upstate cities.

the suburbs, where new outlets tend to be in working class and lower-income communities. Check cashers opened in 18 different Long Island communities; the median household incomes in 15 of these communities were less than the Long Island median household income of of $66,074.[25]

D. Check Chasing Is Predominantly an Inner-City Phenomenon

The following charts illustrate one of the basic findings of this report: that where there are numerous check cashers there are few banks, and where there are numerous banks, there are few check cashers.

1. Brooklyn.

The zip-code breakdown in Chart IV-2 reveals just how unevenly banks and check-cashing outlets are distributed. This chart incorporates Chart II-3 (the number of people per bank in Brooklyn zip codes), adding new columns for the number of check cashers and persons per check casher.

Chart IV-2. Comparison of check casher and bank branch deployment in Brooklyn.

1989 medien HH Income	Zip code area	1990 pop.	# of check cashers, 1993	Pop. per casher	# of bank branches	Pop. per branch
13,625	11206	74,177	6	12,363	5	14,835
16,502	11237	47,890	7	6,841	3	15,963
18,220	11211	77,445	12	6,454	6	12,907
19,256	11221	70,546	6	11,757	3	19,755
19,831	11233	59,267	2	11,853	0	na
20,365	11212	86,809	8	10,581	4	21,702
21,736	11207	83,577	8	10,447	5	16,715
21,787	11232	22,526	7	3,218	1	22,526

[25]The communities and median household incomes are: East Patchogue, $55,306; Central Islip, $52,203; Amityville, $62,501; Coram, $62,488; Lindenhurst, $59,636; Elmont, $58,678; Freeport, $58,948; Hauppauge, $74,473; Bay Shore, $54,407; Riverhead, $41,384; North Bayshore, $53,716; Island Park, $57,392; Huntington Station, $59,368; Brentwood, $58,448; Roosevelt, $53,586; Wyandanch, $39,529; Merrick, $83,320; Baldwin, $69,782.

1989 median HH income	Zip code area	1990 pop.	# of check cashers, 1993	Pop. per casher	# of bank branches	Pop. per branch
22,281	11216	59,161	3	19,720	5	11,832
22,367	11205	36,897	7	5,271	4	9,224
22,516	11239	14,901	0	n.a.	2	7,451
23,134	11208	78,154	6	13,026	3	25,051
23,576	11224	52,314	2	26,157	5	10,462
23,957	11213	62,666	4	15,667	3	20,899
26,422	11219	73,272	3	24,424	8	9,159
28,518	11226	111,916	7	15,988	6	13,990
28,803	11220	76,875	8	9,609	2	19,219
29,469	11238	43,435	3	14,478	2	21,718
29,994	11225	66,354	4	16,589	2	33,177
30,119	11231	31,915	1	31,915	4	7,979
32,158	11204	64,872	2	32,436	9	7,208
32,738	11214	73,056	2	36,528	15	4,830
33,326	11223	70,695	3	23,565	8	8,837
33,712	11218	66,938	2	33,469	4	6,248
34,534	12222	37,488	5	7,497	7	5,355
34,929	11217	36,239	7	5,177	7	5,177
35,209	11235	66,722	3	22,241	12	5,560
37,121	11203	81,253	3	27,084	7	11,608
37,195	12230	73,600	1	73,600	7	10,514
40,481	11236	80,410	2	40,205	9	8,934
40,884	11210	62,337	1	62,337	9	6,926
40,920	11215	67,025	3	22,342	9	7,447
41,340	11229	73,321	1	73,251	11	6,665
42,142	11228	39,090	0	n.a.	6	6,515
44,761	11209	62,247	1	62,247	25	2,489
48,458	11201	46,951	7	6,707	27	1,738

48,627	11234	74,612	2	37,306	13	5,739

Lower-income areas are continuing to develop an even greater concentration of cashers while simultaneously losing banks:

- In Crown Heights, Brownsville and East New York (11207, 11208, 11212, 11233, 11238), the number of check cashers rose from 23 in 1986 to 26 in 1994, while one bank branch was lost in an already skeletal network.

- In Bedford-Stuyvesant, Williamsburg and Bushwick (11206, 11211, 11216, 11221, 11237), check cashers increased from 25 in 1986 to 28 in 1994 while the number of bank branches declined by six.

Chart IV-3 summarizes the inverse relationship between check cashers and bank branches. The number of residents per bank branch is twice the number per check casher in the poorest zip code area. In the top income fifth, however, the situation is more than reversed, with the number of persons per check casher more than six times the number per bank branch.

Chart IV-3. Brooklyn check casher and bank branch summary chart.

Zip code quintile	Number of check cashers	Population per check casher	Number of bank branches	Population per bank
Bottom	56	7,833	27	18,333
2nd	25	15,095	30	13,012
Middle	25	15,815	44	11,425
4th	20	19,745	65	7,907
Top	16	27,728	100	4,433

2. Bronx.

Although both Manhattan and Queens have larger populations than the Bronx, they have fewer check cashers, reflecting check cashers' preference for lower-income communities, which the Bronx has more of than the two other boroughs.

Chart IV-4.

Median House-hold Income, 1989	Zip Code Area	1990 Pop.	# of check cashers	Persons per casher	# of open banks	Persons per open branch
$10,865	10454	36,120	3	12,040	1	na
$12,168	10474	23,071	3	7,690	5[26]	4,614
$12,243	10455	31,166	5	2,449	4	15,583
$12,728	10459	31,271	9	3,475	3	10,423
$13,587	10453	71,008	8	8,876	1	71,000
$13,616	10452	55,756	7	7,965	2	55,756
$14,456	10456	69,800	4	17,450	0	na
$15,593	10457	61,890	4	15,473	1	61,890
$16,095	10460	47,571	5	9,514	0	47,571
$18,041	10451	43,050	9	4,783	4	14,350
$20,987	10458	70,022	7	10,003	3	17,505
$22,494	10472	61,484	7	8,783	2	30,742
$22,643	10468	65,742	8	8,218	5	13,148
$28,810	10467	85,279	8	10,660	8	10,659
$28,944	10473	53,758	4	13,440	3	17,919
$35,121	10462	61,226	3	20,409	11	8,746
$37,271	10463	67,030	3	22,343	12	6,093
$37,723	10466	59,649	4	19,883	6	14,912
$39,625	10475	37,077	1	37,077	7	7,415
$40,069	10461	45,659	3	15,220	9	7,609
$41,407	10469	53,781	4	13,445	5	10,756
$43,829	10470	12,793	2	6,397	2	6,396
$45,962	10465	59,649	1	59,649	4	14,912
$58,240	10464	4,123	0	n.a.	1	4,123
$60,248	10471	23,481	0	n.a.	4	5,870

[26]Bank branches are within or adjacent to the Hunts Point Market.

As in Brooklyn, the rule of thumb is: if a neighborhood has ample banks, it has few check cashers. If it has numerous check cashers, it has few banks. Chart IV-5 summarizes how poor and working-class Bronx zip code areas account for the bulk of check cashing outlets, while the more affluent zip code areas have most of the banks.

Chart IV-5. Bronx bank and check casher summary.

Zip code quintile	Number of check cashers	Population per check casher	Number of bank branches	Population per bank
Bottom	28	6,880	14	13,759[27]
2nd	29	9,589	7	46,344
Middle	34	9,891	21	16,013
4th	14	19,332	45	6,014
Top	7	21,975	16	9,614

This chart illustrates the steady increase in population per check casher and decrease in population per bank branch as household income rises. Especially noteworthy are the existence of few bank branches yet a four-to-one ratio of cashers to banks in the second quintile of zip codes, while a three to one ratio of banks to check cashers prevails in the more affluent fourth quintile.

Focusing on the lowest income zip codes:

- In the South Bronx (10451, 10352, 103454, 10455, 10456, 10459, 10474), the number of check cashers increased from 25 in 1986 to 30 in 1994. There were four bank branch closures during this time.

- In Morris Heights and Tremont (10453, 10457, 10458, 10460, 10468) cashers increased slightly from 30 in 1986 to 31 in 1994, but eight bank branches closed in this period.

The inverse relationship between bank-branch locations and check-casher locations occurs not only in the Bronx and Brookyn. It's a national pattern. For example, South-Central Los

[27]Five of the bank branches in this quintile are adjacent to or inside the Hunts Point Cooperative Market. Presumably, they primarily exist to serve that facility.

Angeles, before it burned in the 1992 riot, had 19 banks and 133 check cashing outlets.[28]

In recent years, responding to continued bank branch closures and continuing bank service fee increases, a few check cashers have opened shop for the first time in middle-class sections of the Bronx. For example, Williamsbridge (10469) got its first check cashing outlet in 1987 and now has four. Throggs Neck (10465) got its first and still its only check casher in 1989. Officials of the Pay-O-Matic Corporation, which opened the new office, said in an interview that local residents vehemently opposed the introduction of a check cashing store in their neighborhood, fearing that it would attract the "wrong elements." In Wakefield (10466), the two check cashers that opened in 1978 and 1980 were joined by four more between 1988 and 1992.

F. Explaining the Expansion of the Check-cashing Industry

1. Absence of Banks

When asked the main reason for the expansion in the number of check cashers, Henry Shyne, executive director of the New York State Check Cashers Association responded, "Because banks have pulled out... Check cashers have become community financial service centers by default." The owner of a large New York City check-cashing chain agreed: "Banks -- no matter what they say - - have abandoned the inner-cities. We exist and expand because of a need. We didn't create the need." And the owner of another chain said that the dearth of banks is "definitely a significant factor," adding, "People in poor areas shop in bodegas even though they cost more. Why? Because there aren't enough good supermarkets around. The same goes for check cashers and banks."

Community leaders and organizers agree with the check cashers. Walter Campbell, district manager of Brooklyn Community Board #5 (East New York), said in an interview, "In the last several years, many banks have closed in East New York. Two Chemical Banks in this district are among the ones that closed. The check-cashing business is booming because of it." According to Nitza Rivera, welfare rights organizer with Banana Kelly Community Improvement Association in the South Bronx, one reason why "people use check cashers is because there's so many of them and so few banks." Another local activist said

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[28]According to *The Thin Red Line: How The Poor Still Pay More, Goods and Services, Food, Housing, Health Care and Care,* a project of the West Coast Regional Office of Consumers Union, June 1993.

that since there are no convenient bank branches, "people don't even think about developing a relationship with a bank -- banks have become foreign institutions to them."

A study of the check-cashing industry conducted in 1991 by several professors at the State University of New York at Albany for the New York State Banking Department noted that the correlation between bank branch closures and check cashers may be more than casual. "In a few cases banks may have encouraged check cashers to open new facilities in low-income areas that they have abandoned," the report said.[29]

Nationally, the expansion in the check-cashing industry is seen as at least partially attributable to bank branch closures. As the *Chicago Tribune* reported in 1993, "The explosive growth comes partly in response to the banking industry's consolidation."[30] And, in 1988, the New Jersey Public Advocate released the study *Who's Checking*, which included a survey of 750 recipients of government transfer payments, Ninety-two percent of the respondents said they did not have a bank account. Seventy-nine percent said they never go to a bank to cash their check, and most went to check cashers. When asked why, respondents cited lack of access to banks and the relative convenience of check cashers.

Check-cashing proprietors were by no means unanimous in saying that bank branch closures were the primary reason for the growth of their industry. Several owners we discussed this question downplayed the role of bank branch closures, citing closures as only one of several factors in the recent industry expansion. They attributed the expansion primarily to the greater convenience of check cashers' longer hours (8:00 AM to 6:00 PM including Saturdays in most locations) and immediate cash availability. (Banks make customers wait for their check to clear unless they have enough money on account to cover it.) However, the longer business hours check cashers maintain and immediate cash availability has presumably always been a check casher advantage and therefore does not adequately explain the *increase* in the number of outlets since 1987.[31]

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[29]"Appendix A, Regulation of the Dedicated Check-Cashing Industry," *Economic Profile of the Check Cashers' Industry,*" Edward Renshaw, Professor of Economics, State University of New York at Albany, May 1991, p. A-17.

[30]"Fringe benefits of 'fringe banking' filling void," *Chicago Tribune,* September 1, 1993.

[31]We analyzed how frequently check cashers open near banks branches that just closed. More often than not there appeared to be no direct correlation. However, there were still numerous instances where a casher did, indeed, open within a few blocks. (See Appendix B.)

Academic studies have found that convenience and accessibility are clearly important factors in determining where people seek out financial services. According to an article in *Economic Perspectives*, a publication of the Federal Reserve Bank of Chicago:

> Numerous studies have affirmed the importance of distance and travel time in determining where consumers and small businesses purchase their financial services. A majority of such customers list convenience of location as the most important factor in deciding where to "bank" ... a large number of households still deposit their paychecks and require such services as check-cashing and loans that do not involve accessing a prearranged line of credit by credit card or check. These households find it necessary to make frequent personal visits to their financial institutions.[32]

The U.S. Consumer Bankers Association has pointed out that nationally, many check casher customers already have bank accounts. But just having a checking account doesn't mean that it will be regularly used if bank branches are inconvenient. And with more check cashers opening every month and bank branches steadily dwindling, the geographic convenience of check cashers provides the industry with a significant new competitive advantage, even though they cost more to use than a bank.

2. Higher Bank Fees

The increase in the number of checks cashed at cashers did not occur until 1983 and 1984 and the upswing in the number of cashers did not begin in earnest until the 1987 to 1990 period. This expansion may have been a reaction not only to the wave of branch closures that had occurred, but to the dramatic upswing in bank fees that also occurred during during the 1980s.

New York City bank fees tripled from 1980 and 1985.[33] And, according to the *Washington Post*, "The Fed found that increases in the service charges imposed when the balance falls below a given minimum are two to four times bigger than the rise in general price levels between 1980 and 1983. Similarly, service charges on checking

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[32]"The geographic distribution of financial institutions in Chicago," *Economic Perspectives*, January/February 1994.

[33]According to the annual *Consumer Bank Scorecard* issued from 1983 to 1989 by State Senator Franz S. Leichter (Manhattan), and jointly by Sen. Leichter and Consumer Affairs Commissioner Mark Green from 1990 to 1993.

accounts doubled at large banks in the same period."[34]

Fee increases tapered off during the next few years, but in the late 1980s and early 1990s they again increased significantly faster than the rate of inflation. Chemical Bank, which now has the largest bank branch network in New York City, requires that at least $1,500 be maintained in a regular checking account to avoid a fee of $9.50 a month and 35 cents a check, up from $1,000 and a $4 monthly fee in 1986.

Realizing that many of their customers were beginning to have difficulty affording these fees and bowing to political pressure to ease up on fees, especially on senior citizens, some banks in the mid-1980s began to offer "lifeline" or "basic" bank accounts -- no-frills checking accounts with fees somewhat lower than for regular accounts. At Citibank, the basic account charges a flat monthly fee of $4 and 75 cents for any transactions (including ATM use) over six per month. The fees are the same at Chemical Bank, although eight transactions are permitted each month. Apple Savings charges $5 a month and 75 cents a check over six.[35]

At $4 a month and 75 cents a check for each check over six a month, a typical holder of a "basic" account will spend a minimum of $5.50 a month, or $66 a year -- a significant sum for someone earning $5 an hour.[36] Middle-class people who can maintain balances of $1,000 to $5,000 avoid checking account fees altogether -- so the poor pay more.

It's not just checking account fees that have gone up. Savings accounts, which ten years ago rarely charged a fee, now do so and savers forfeit interest unless substantial balances are maintained. Chase Manhattan Bank now requires $1,000 to be maintained in a savings account to avoid paying a $15 quarterly fee and $500 has to be maintained in order to earn

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[34] *Washington Post*, April 2, 1985.

[35] In 1993, the other banks claiming to offer lifeline or "basic" checking include: Atlantic Bank ($5 mo. and 25 cents per check); Banco Popular ($4 a month and 75 cents per check over 4); Bank of New York ($4 and 50 cents over 6 check); Chase Manhattan ($4 a month and 10 free transactions, otherwise $9.50 a month and 25 cents a transaction); East NY Savings ($3 a month and $1 after first five); European American Bank ($6 a month, seven free checks, 40 cents for additional); Fleet Bank ($3 per month, 6 free transactions, 50 cents each over 6); Fourth Federal Savings ($5 per month, no limits on checks); Marine Midland Bank ($4 per month, six free debits, 75 cents for each additional); National Westminster Bank (free if balance under $500). It should be kept in mind that some banks -- particularly savings banks -- charge considerably lower checking account fees than most of these "basic" accounts.

[36] *Consumer Reports* (June 1988) states that customers with only $500 in the bank write an average of ten checks a month. Our calculation is based on eight checks a month.

interest. Citibank charges $4.50 a month for balances below $500. National Westminster charges $4 a month unless a $400 balance is maintained.

We asked several community leaders in lower-income neighborhoods whether bank fee increases may have caused some customers to forsake banks and patronize check cashers. Many explained that a major reason people use check cashers instead of banks is the strong belief that banks cost too much; banks require significant minimum deposits to open a checking account in the first place, and savings account fees would soon erode a modest balance to zero. Indeed, most check-cashing customers do not even bother to inquire about exactly how much the bank would cost, assuming that it is expensive and that low-balance accounts are soon eaten up by charges.

Abdur Farrakhan, executive director of the Ocean-Hill Brownsville Tenant Association, said that one reason why local residents go to check cashers instead of banks is because they can't afford the minimum amount needed to open and maintain an account. "And banks charge exorbitant fees," he said. A tenant relations specialist at the St. Nicholas Housing Development Corporation pointed out that banks require a certain amount of money to be maintained in order to start, maintain and avoid fees and to have sufficient funds to cash any paycheck.

We also interviewed several community residents to learn what motivates them to use cashers. Ms. Muriel E., a housebound 74-year-old resident of Harlem's Hamilton Heights neighborhood, was representative. She said she receives social security "and can't afford a bank account." She pays all her bills with money orders purchased at check-cashing outlets, even though she knows they are too expensive. "I spend more than $10 a month on money orders. It's enough to pay another bill but what can you do?" She added that she fears falling victim to "muggers who lurk around these places."

3. Inadequate Bank Services in Lower-Income Communities Discourage Patronage

Lack of banks and high bank charges are only part of the reason residents of low-income communities use check cashers so much. The perception and the reality of poor service in local banks is also a very important factor.

In 1986, the New Jersey Department of the Public Advocate conducted an on-site survey of 750 recipients of an array of public benefits to find out why they do not use banks to cash

their monthly benefit checks.[37] In response to the question "Why are you cashing your check here [at a check-cashing store] instead of at a bank?," 50% said because the bank is inconvenient; more specifically, these respondents complained about banks "refusing to cash government checks for non-account holders, about "having to wait in long lines at the few banks offering check-cashing services," and about their checks being received on days banks are closed.

Refusal to cash government checks was the subject of a report issued in 1988 by the U.S. General Accounting Office, which found that persons without bank accounts often experienced difficulty cashing government checks. And in testimony before the U.S. Senate Banking Subcommittee on Consumer Affairs in May 1988, an official from the Ohio State Consumers Education Association said that before cashing a check, many banks require welfare recipients to open accounts for fees they cannot afford, provide drivers licenses that many do not have for identification, and stand in separate lines. Abdur Farrakhan of the Ocean Hill-Brownsville Tenant Association complained that the few banks in his vicinity "insist on drivers licenses and other forms of ID that many people in my neighborhood do not have."

In August 1991, the New York City Department of Consumer Affairs conducted a survey of people standing in line in teller lines. Volunteers asked a total 1,163 persons exiting 28 different bank branches in both low-income, middle-income and affluent neighborhoods over a two-week period if they were regular customers of the bank and, if they were, how long they usually wait to see a teller there. The volunteers wore uniforms, carried clipboards and identified themselves as performing a survey for the Consumer Affairs Department.

The findings: Teller lines in poorer neighborhoods were considerably longer than elsewhere. Whereas only 9.5% of respondents in poor neighborhoods said they usually waited less than one minute, 28.4% elsewhere said so; 22.6% of residents of poor areas waited one-to-five minutes, compared with 42.77% elsewhere. But a far greater percentage of respondents in poor area than elsewhere responded that they waited longer than five minutes. Indeed, 8.2% said they usually wait at least a half an hour, compared to less than 1% elsewhere. (See Appendix E.)

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[37]New Jersey's check casher regulations are similar to New York's. At the time of the survey, a maximum cashing fee of 2.0% was allowed and government benefits were not distributed electronically by check cashers.

We interviewed several community leaders in low-income neighborhoods about the quality of the service provided by the financial institutions local residents patronize. Most said that the few remaining banks in their communities still have long lines. In Manhattan, for example, a constituent services liaison for Councilmember C. Virginia Fields said she avoids Harlem banks because of poor service, travelling instead to a Chase Manhattan Bank branch on 73rd Street. The lines are "an hour long at the Chase branch in Harlem, " she reported.

Mildred Duran, former district manager of Community Board #8 in Manhattan and now the director of the Street Activity Department in the Mayor's Community Assistance Unit, said that many local residents avoid banks not only because they do not have enough money to maintain an account but also because they do not understand how to open an account in the first place. And she called the lines at local banks "horrendous."

Erroll Louis, co-founder with Mark Griffith of the Central Brooklyn Federal Credit Union, a new community development credit union in Bedford-Stuyvesant, said that Chemical Bank's Bedford-Stuyvesant branch, which is near his office, often has extremely long lines, in spite of Chemical Bank's policy of offering $5 to any customer who waits for more than seven minutes.

We also interviewed individuals as they exited check cashers in Manhattan, the Bronx and Brooklyn. One of the most frequently cited reasons for using a check casher instead of a bank was that banks have long lines and do not provide immediate cash for checks; an account with a sufficient balance is needed for immediate cash. There also was a negative attitude toward banks generally: "I don't like banks" or "I don't trust them," was a common refrain. Indeed, many recipients reported that they actually like check cashers. Why? Because of convenience, the ability to get immediate cash and because, according to some respondents, they see the same face behind the counter every time they visit. Check-casher employees, who often are hired from the neighborhood, recognize their regular customers.

Banks' costly bounced-check fees, substantial minimum account balances and general adherence to traditional 9-3 banking hours send a strong message to the lower-income communities that they need not apply. In comparison, check-cashers don't look so bad, even with their higher fees.

As discussed previously, banks in poor areas also lack 24-hour ATM machines, Saturday hours, or extended weekday hours, which are more common in other areas. Nitza Rivera of Banana Kelly Community Improvement Association said that banks' short hours are "one of

the biggest reasons why more people don't use banks in our area."

In a survey of check-cashing customers conducted in 1989 by the Roper Organization on behalf of the Consumer Banking Association,[38] check-casher users who also had bank accounts were asked why they still used a casher. Many of the respondents cited inadequate service at banks, with a third replying that the bank was closed when they needed it. 14% said their bank was too crowded or the lines too long; 16% said the check-casher was easier to get to or faster than a bank.

Owners of check-cashing chains interviewed for this study also cited inadequate bank service and the failure of banks to aggressively market their branches in lower-income areas as a factor in the appeal of their own businesses. "People are intimidated by banks... And another reason they don't use them is because if they bounce a check or two pretty soon they'll have paid $50 in bounced-check fees," according to Rick Price, president of the New York State Check Cashers Association.

Check cashers also cited their own outlets' convenience and the ability to handle all basic financial transactions -- from cashing checks to paying the bills -- in one location as important lures. As Howard Mandelbaum, executive director of the National Check Cashers Assn., a trade group based in Paramus, N.J, told the *Chicago Tribune*, We're like the 7-Eleven of the financial services industry in terms of convenience... Of course, you pay for that convenience."[39]

As might be expected, bank executives and trade organizations claim that service is excellent in all of their branches, wherever located. They also argue that many people simply prefer to carry out their personal financial transactions at a check casher because they prefer privacy have had little experience with banks, distrust institutions generally or are uncomfortable with ATMs. One executive we interviewed even suggested that some individuals engaged in the underground economy used check cashers instead of banks because "banks record everything." This may all be true, but it fails to explain the industry's recent growth, which has been substantial in New York State and very rapid elsewhere in the nation.

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[38] A banking industry trade organization.

[39] op. cit.

4. The Recent Recession and the Changing Economy

New York City's economy has been suffering. Some 320,000 private sector jobs have been shed since employment peaked in 1989. Because well-paying manufacturing jobs have taken the hardest hit, some blue-collar families who used to have enough money to maintain checking accounts have had to give them up and use check cashers.

New York City is developing a split-level economy. As the economy internationalizes -- with GATT and NAFTA, with instant communications, with nation-less transnational corporations in dozens of countries -- the information elite in world cities like ours is doing very well. But the bottom is falling out for unskilled, less-educated workers who have suffered either declining real incomes or constant unemployment or welfare.

Statistics prove it. As a study released by the U.S. Census Bureau on March 30, 1994 revealed, the number of all Americans working full time but earning less than the poverty level for a family of four has risen by 50% in the past 13 years. And New York City's income inequality index increased 14% between 1970 and 1990 and is the 6th highest of 20 large cities.

Hard times have also come to many suburbanites. On Long Island, enormous job cuts at Grumman Aircraft and other defense contractors have rocked the local economy. Even utilities are letting thousands of employees go. The 162% increase in the number of Long Island check cashers since 1987 (from eight to 21) is therefore not surprising. As mentioned, nearly all of the new Long Island check cashers have opened in working-class and lower-income communities.

According to one owner of a small NYC check-casher chain, the recent recession has had another effect: it has encouraged new entrants into the industry who used to do something else for a living. According to the owner, "You don't have to be a brain surgeon to go into check-cashing. You just have to show up." He said that people who have "fallen out of the employment market have to look for something else and that's sometimes check-cashing." *BusinessWest* magazine of Massachusetts, reporting on the rapid national growth in check-cashing, has reported, "Check cashing even became a choice, alongside pizza and office

cleaning, among 1980s entrepreneurs seeking a pot of gold through franchising."[40]

5. Ending Restrictions on Where Check Cashers May Open

It has been speculated that the industry's recent growth has been caused by ending restrictions on where new licensed check-cashing outlets are permitted to open. For decades, the New York State Banking Department applied a distance standard as a prime factor reviewing new applications and an application for a location deemed too close to an existing location would be turned down. In 1985, the Department announced that distance would not be a determining factor but that the prospect of a new entrant causing "destructive competition" would still be considered.

In 1989 even this limited application review factor was overturned by the New York State Court of Appeals (*Matter of Tze Chun Liao, d/b/a Money Express Check Cashing Service* v. *New York State Banking Department*). The Court held that the "destructive competition" concept was not in the industry's governing statute." The Banking Department had rejected Liao's application for a license for an outlet only 80 feet from an existing casher.

Ending of the "destructive competition" and related distance standards, in our analysis, in fact, did stimulate expansion. While 31 licenses were issued in 1988 and 39 in 1989, in 1990 -- the year after the *Liao* decision -- the number of issued licenses jumped to 62, settling back down to 34 in 1991, 33 in 1992 and increasing again, although not as dramatically as before, to 47 licenses in 1993.

This conclusion is also based on our examination of post-1989 casher sitings. We mapped the locations and opening dates of every check casher in Brooklyn and the Bronx. In the Bronx, about one-third of new check cashers opened near (within three short or two long blocks) of an existing casher. In Brooklyn, more than half of the new cashers had located near an existing casher.

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[40] "Cashing in: Check cashing businesses gain respect as demand continues to increase," *BusinessWest*, July 1993.

6. Institution of the Electronic Payment File Transfer (EPFT) system for distributing public assistance benefits.

With the advent of EPFT in 1985, thousands of public assistance recipients switched from using bank branches to check cashers, providing the check-cashing industry with an expanded customer base.

In the early 1980s, public assistance checks were drawn on a Manufacturers Hanover Trust Company account and could be cashed for free (the City reimbursed the bank) at 140 branches of the bank. About 25% of recipients used the bank branches; although, since teller lines were long, most opted for check cashers, where they paid a fee. No other bank offered the service.

In 1984, Manufacturers Hanover announced that it would reduce to only 38 the number of branches offering this service. When the City protested because many people would have to travel far to reach a branch, the bank agreed to keep 44 branches available and Citibank to provide redemption services in seven branches. Still, the following year, when the EPFT system was instituted (in which recipients are given encoded cards to be swiped through a reader and the City picks up the processing fee), there were about 100 fewer bank branches to redeem benefits than there had been a few years previously, leading thousands of public assistance recipients to switch to check cashers.[41] As one owner of a cashing outlet said in an interview, "EPFT has been very good for this industry." Today -- in addition to check cashers -- HRA has arranged for just 27 Chemical Bank branches (Chemical took over Manufacturers Hanover) to handle public assistance transactions.

Manufacturers Hanover appears to have had discouraged public assistance recipients from visiting even some of the remaining branches. According to one long-time owner of a check-cashing chain, Manufacturers Hanover established special teller lines dedicated only to these customers. "At the branch in my area," he said in an interview, "they had a sign up saying that the line with the EPFT machine was open only from 10:00 AM to noon and giving the name of three nearby check cashers to go to instead." The City has over the years tried and failed to persuade other banks to also handle public assistance transaction, but the industry prefers to send these customers to check cashers.

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[41]By 1992 check cashers were processing 13 million EPFT transactions annually, up from 10 million in 1989 and none prior to 1985.

V. CHECK CASHERS COST MORE

Poor people pay a considerable premium for doing their financial business with a check casher rather than with a bank. To find out just how much, we compared bank fees with check casher fees by applying a "market basket" of typical personal financial transactions to check cashers and banks, making a total of three comparisons.

Market Basket #1. Marisol, who lives in Brooklyn, is paid $16,900 annually, before taxes. Her monthly utility expenses include gas, phone, electric and Cable TV. She also pays a monthly bill for furniture rental and once during the year she sent $500 to her mother who lives several hundred miles away. Under an arrangement with Nynex and the Cable TV company, there is no fee. The next charts show how much she would pay over one year at two different Brooklyn check-cashing outlets.

Chart V-1. Castle Check Cashing, 781 Broadway, Brooklyn

Activity	Fee	Annual Cost
Cashing (and depositing) paychecks	1.1%	$135.20
Cashing miscellaneous checks	1.1%	$6.60
Electric and gas	75 cents each	$18.00
Rent	89 cents for each money order, 2 are needed each month	$21.36
Furniture	89 cents for each money order	$10.68
Sending money	$40.00	$40.00
TOTAL SPENT IN ONE YEAR		**$231.84**

Alivad Check Cashing, 6218 New Utrecht Avenue, Brooklyn

Activity	Fee	Annual Cost
Cashing (and depositing) paychecks	1.1%	$135.20
Cashing miscellaneous checks	1.1%	$6.60
Gas and electric	70 cents	$16.80
Rent payments	$1.00	$24.00
Furniture	$1.00	$12.00
Sending money	$40.00	$40.00
TOTAL SPENT IN ONE YEAR		**$234.60**

TOTAL SPENT IN ONE YEAR		$234.60

If Marisol had patronized a bank, she would have paid far less. Assuming a balance for nine months in excess of $500, averaging $600 all year, and dropping to $300 for three months, the next chart shows that at the end of one year her total fees would have ranged from $15 at First Federal Savings & Loan Association to $109 at Home Savings of America. It is assumed here that instead of using a money transmitter, Marisol used the bank's service of transferring funds to an account elsewhere. Budget or basic checking accounts were applied where available.

Chart V-2. Annual cost of market basket at six banks.

Bank	Monthly service fee	Check fees	Money transmission fee	TOTAL
Citibank	$48.00	none	$20	$64.00
First Federal S & L	none	none	$15.00	$15.00
Bay Ridge Fed S & L	$22.50	none	$25.00	$47.50
Marine Midland Bank	$48.00	none	$20.00	$68.00
Banco Popular	$48.00	$18.00	$25.00	$91.00
Home Savings of America	$84.00	none	$25.00	$109.00

Market Basket #2. Scott receives public assistance (home relief) and food stamps. During the year, he cashed miscellaneous checks worth a total of $600. He paid separate phone, electric and gas bills every month and monthly rent of $350. He also made two miscellaneous payments a month and sent $100 once during the year to a relative in another state. Chart V-3 shows that he would have paid $71.04 in one year at Castle and $73 at Alivad.

Chart V-3. Castle Check Cashing, 781 Broadway, Brooklyn

Activity	Fee	Annual Cost
Cashing checks	1.1%	$6.00
Electric and gas	75 cents each	$18.00
Rent	89 cents for each money order	$10.68
Miscellaneous payments	89 cents for each money order	$21.36
Sending money	$15 each	$30.00

TOTAL SPENT IN ONE YEAR		$71.04

Alivad Check Cashing, 6218 New Utrecht Avenue, Brooklyn

Activity	Fee	Annual Cost
Cashing checks	1.1%	$6.00
Gas and electric	70 cents	$16.80
Rent payment	$1.00	$12.00
Miscellaneous payments	$1.00	$24.00
Sending money	$15.00	$15.00
TOTAL SPENT IN ONE YEAR		$73.00

If Scott had patronized banks instead -- maintaining an average monthly balance of $300, dropping to $100 in two months -- his outlay would have ranged from a low of $15 at First Federal to a high of $115 at Bay Ridge Federal Savings:

Chart V-4.

Bank	Monthly service fee	Check fees	Money transmission fee	TOTAL
Citibank	$48.00	none	$20.00	$68.00
First Federal S & L	none	none	$15.00	$15.00
Bay Ridge Fed S & L	$90.00	none	$25.00	$115.00
Marine Midland Bank	$48.00	none	$20.00	$68.00
Banco Popular	$48.00	$18.00	$25.00	$91.00
Home Savings of America	$84.00	none	$25.00	$109.00

Market Basket #3. Maria and Manuel are married. They both hold jobs and live in Brooklyn. She earns $16,900 annually before taxes, while he earns $27,300 annually. In addition to separate gas, phone, electric bills, they also pay monthly cable TV, furniture, auto insurance payments and payments on their used car. Their rent is $550. They sent money ($300) to Florida twice during the year.

As the charts indicate, they will spend nearly $30 every month just to cash their paychecks. Here is their total annual check casher outlay:

Chart V-5. Castle Check Cashing, 781 Broadway, Brooklyn

Activity	Fee	Annual Cost
Cashing (and depositing) paychecks	1.1%	$341.12
Electric and gas	75 cents each	$18.00
Rent	89 cents for each money order, 2 are needed each month	$21.36
Furniture	89 cents for each money order	$10.68
Auto insurance and loan payments	89 cents for each money order	$21.36
Sending money	$34.00 each time	$68.00
TOTAL SPENT IN ONE YEAR		$480.52

Alvidad Check Cashing, 6218 New Utrecht Avenue, Brooklyn

Activity	Fee	Annual Cost
Cashing paychecks	1.1%	$341.12
Gas and electric	70 cents each	$16.80
Rent payments	$1.00	$24.00
Furniture	$1.00	$12.00
Auto insurance and loan payments	$1.00 each	$24.00
Sending money	$34.00 each time	$68.00
TOTAL SPENT IN ONE YEAR		$485.92

Here is what Manuel and Maria would have paid at some banks for the same market basket of services, assuming they had an average monthly balance of $800, declining to only $400 during two months of the year. Their annual bank outlay would range from a low of $30 at First Federal to a high of $109 at Banco Popular.

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Chart V-6.

Bank	Monthly service fee	Check fees	Money transmission fee	TOTAL
Citibank	$48.00	$18.00	$40.00	$106.00
First Federal S & L	none	none	$30.00	$30.00
Bay Ridge Fed S & L	$15.00	none	$50.00	$65.00
Marine Midland Bank	$48.00	$18.00	$20.00	$86.00
Banco Popular	$48.00	$36.00	$25.00	$109.00
Home Savings of America	$14.00	none	$50.00	$64.00

V. RECOMMENDATIONS

A. Require Banks to Cash Government Checks

Banks operate under a government charter. They benefit from government deposit insurance. Government examiners try to make sure that all banks play on a level field. So why should banks still be allowed to turn away non-depositors who simply want to cash government checks?

Legislation introduced in Washington in 1991 by Senator Howard Metzenbaum would require banks to cash government checks of $1,500 or less for individuals who pre-registered for such a service; banks could charge a nominal fee to cover their costs.

What is the actual cost of cashing a check? A 1988 study by the General Accounting Office cited the Federal Reserve Board Functional Cost Analysis, which showed that the cost of processing a check ranged from 33.4 cents for a small bank to 37.7 cents for a large one. The report added, "A bank official estimated the cost of cashing a check at 66 cents for his little bank in Florida." As for fraud, only 10 cents of every $10,000 in government checks, or three checks for every 10,000 issued, is fraudulently cashed.

The banking industry has vigorously opposed the Metzenbaum measure, arguing, in the words of Donald G. Ogilvie, executive vice president of the American Bankers Association,

that "banks are businesses, not public utilities." Of course, when much of the banking industry -- especially thrift institutions -- got into deep financial trouble duing the 1980s, it was argued that banks were essential (much like utilities) and government intervention and assistance was forthcoming.

B. Encourage Creation and Growth of New Not-for-Profit Financial Institutions That Will Cash Checks and Offer Deposit Accounts

The Central Brooklyn Federal Credit Union, opened in 1993, points the way to one solution to the problem of offering check-cashing services at a somewhat more reasonable cost and in an environment that encourages saving. The credit union is planning to cash checks for 1.0% of face value -- a 10% savings off the licensed check casher fee -- and to sell money orders for 75 cents. While such fees do not represent a major savings, there are other major advantages to this plan.

According to Erroll T. Louis, a co-founder of the credit union, customers will be actively encouraged to open deposit accounts. So instead of offering customers lottery tickets, credit union employees will try to talk them into setting aside some money in a savings account. Currently, the credit union is located in a fifth floor office of the Bedford-Stuyvesant Renaissance Plaza and is readying an imminent move a former Fulton Street branch of Manufacturers Hanover Trust Company, with assistance from Chemical Bank.[42]

Still another advantage of community development credit unions as check cashers is that fee earnings will be reinvested in loans to local borrowers. Louis hopes that customers he attracts from nearby check-cashing outlets will start saving money at his institution and eventually even take out loans. He would like his credit union to be authorized to distribute public assistance benefits through the EPTF system. This would provide a steady revenue stream for the credit union and attract more customers, who might open small accounts.

Credit union customers might also be able to sign up with their employers for direct paycheck deposit. The dearth of bank branches in lower-income areas has made it nearly impossible for employers to offer their employees this service. Officials of Banana Kelly

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[42]In 1986, Manufacturers Hanover helped another community credit union -- The Lower East Side People's Federal Credit Union -- get off the ground when it handed over a closed branch on Manhattan's Lower East Side to a new group forming the credit union. No rent was charged for three years. The bank also provided a $100,000 seed loan. Chemical Bank has since supported the credit union with zero-interest deposits and small grants.

Community Improvement Association in the South Bronx learned this when they arranged with Chemical Bank for direct deposit of employee paychecks. The only two Chemical Bank branches in the office's general vicinity were at 149th Street and 3rd Avenue and at Randall Avenue near the Hunts Point Market. According to Joe Hall, a Banana Kelly official, both locations required separate bus trips, and the Hunts Point branch is in a desolate industrial area and is geared to serving the Hunts Point Cooperative market. Chemical Bank just closed its Randall Street branch.

There are 22 community development credit unions in New York City, with a total of 21,000 members and $23 million in assets, owned and operated by lower-income people.[43] Of course, not all of these would want to get into the check-cashing business. Still, if they were strengthened with new capital infusions and if additional credit unions were created, a viable alternative to for-profit check-cashing outlets might develop.

How can more such community development credit unions be created which could provide check-cashing services?

a) Assistance in creating alternative financial institutions may be available in the Community Development Banking and Financial Institutions Act, which would provide $382 million over the next four years for community development financial institutions. The Act is what's left of President Clinton's proposal to devote $1 billion dollars to a network of alternative community-based development banks. One significant positive feature of the Administration's proposal is that it has targeted a variety of community development financial institutions, including institutions that some communities have already created. It is designed to encourage banks and other financial institutions to invest up to 5% of their capital in distressed urban neighborhoods and rural communities through community development banks.

b) In March 1994, the U.S. Department of Housing and Urban Development announced a partnership with a group of private companies and foundations to encourage development in distressed neighborhoods. The Government, seven foundations and three major corporations (Metropolitan Life, J.P. Morgan, Prudential) will contribute a total of $88 million to the National Community Development Initiative, which will eventually leverage $750 million for revitalizing city neighborhoods. Loans and grants to nonprofit community development corporations will be used to help renovate housing, provide day care, create neighborhood

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[43]Source: *Crain's New York Business*, December 21, 1992.

shopping, or start new businesses such as credit unions. There are about 2,000 community development corporations in existence.

c) U.S. Senator Bill Bradley has introduced the Community Capital Partnership Act, which would commit the federal government to replicate successful community reinvestment efforts such as the Shorebank in Chicago and New Community Corporation in Newark, NJ.

The Act is intended to deal with exactly the problem this report illustrates: the disappearance of bank branches and their replacement by check-cashing outlets. The result of this activity, according to Bradley, is that "people who want to save have nowhere to go and businesses have no access to capital. Within the 165 square miles that make up the area most affected by the Los Angeles disturbances, there are 19 bank branches, as compared to 135 check-cashing outlets."[44]

C. Get Check Cashers to Help, Too

Alternative not-for-profit institutions offering check cashing and deposit accounts are not the only solution to the problem of providing essential and affordable financial services in lower-income areas. There are simply not -- and maybe never will be - enough of them to provide a convenient alternative.

So the existing check casher network might be pressed into service. Chemical Bank, which is the main bank serving the licensed check-cashing industry, is investigating how it might arrange for check cashers to operate as their agent in taking deposits in savings accounts and certificates of deposit.

While credit unions are still preferable because they circulate funds into the community, rather than to proprietors who may reside in the surburbs, and because they can charge a little less for cashing services, such an augmented relationship between banks and cashers might at least begin to fill a major banking services gap. However, it would also be necessary for Chemical Bank and other banks to reduce their savings account service charges in order for such a plan to succeed. The current savings account fee structure would discourage check-cashing customers from opening deposit accounts.

Another benefit might be that once an account balance of several hundred dollars is

[44]Floor speech by Senator Bill Bradley, March 18, 1993.

reached, it would be possible for Chemical Bank to offer their new customers a credit card, perhaps a secured credit card. With secured credit cards, credit lines equal the amount kept in an account at the offering institution. Otherwise, they are indistinguishable from a regular Visa or MasterCard.

D. Proposed Federal Community Reinvestment Act (CRA) Regulations Should Take Into Account Whether Appropriate Bank Services Are Offered.

Under proposed new federal CRA regulations, when determining a bank's CRA rating, the government will review how well a bank passes a "Service Test," that is, how well it provides needed basic banking services in its communities. Included in this review is how accessible the bank's branches are to low and moderate income areas, the bank's record of opening and closing branches, and the quantity, quality, types of services offered to low and moderate income people as compared to higher income people. Based on a bank's record in extending credit and providing services, a rating of "Outstanding," "High satisfactory," "Low-satisfactory," "Needs to improve," or "Substantial non-compliance" will be assigned.

The proposed regulations should also include as a very important element in assiging a CRA rating whether a bank's services in lower-income areas respond to the financial services needs of the local population, that is, whether the services are *appropriate* in a lower-income area and whether they respond to the daily financial services needs of local populations. Among questions that regulators should answer are: Does the bank cash non-depositors' social security, veterans benefits and other government checks with proper identification and pre-registration? Does the bank offer a real "lifeline" checking account? Are savings account fees so high as to wipe out a small savings account after a year if funds are not added? The Office of the Public Advocate is preparing comments for the U.S. Office of the Comptroller of the Currency on the proposed regulations.

The banking industry maintains that it is increasingly difficult to wring profits out of bricks-and-mortar branches, even in moderate-income communities, and that tough CRA enforcement places the banking industry at a competitive disadvantage with non-bank financial services providers, to which the CRA does not apply. They point out how, in the rapidly evolving banking industry, the methods of delivering financial services are being increasingly tailored to the market being served, making it impractical to continue to offer full-service branches with tellers in every kind of community. And a New York State Bankers Association official we reiterated how State regulations require banks wishing to close branches in low-and-moderate income areas to show the Banking Department three

years worth of branch financial information to justify their proposed action.

Yet adequate and appropriate provision of the every day financial services needs of lower-income New Yorkers does not require banks to "lose" money, as the industry fears. BayBank, a major Boston commercial bank, is showing that there are alternatives. *American Banker*, a daily trade publication, reported:

> While bankers in many other parts of the country are shuttering inner city branches to meet cost-cutting objectives, executives at the flagship of $9.8 billion-asset BayBanks Inc. actually have increased their presence in the inner-city neighborhoods of Boston. In the last three years, three new branches have been opened and 26 automated teller machines deployed in those communities. And to prove that it means business, BayBank has positioned itself to compete head on with check-cashing houses.
>
> A new marketing campaign, targeted specifically at low-income and moderate-income Bostonians who heretofore have shunned banks, seeks to convince these so-called unbanked consumers that BayBank, with its ubiquitous ATMs and a low-cost checking account, is a much better deal than check-cashing houses. [45]

The article also reported that staffers fluent in Spanish and Vietnamese "stand ready to help walk-in branch customers with everything from making deposits and completing credit applications to reconciling their checking accounts." The bank is especially targeting recent immigrants not used to banking -- exactly the people living in many of the most underbanked New York City communities. BayBanks' basic checking account charges just $2.50 a month for eight free checks and four free ATM transactions, which is considerly less expensive than the Citibank and Chemical Bank "budget" accounts.

BayBanks is even going so far as to open five new full-service branches in lower-income neighborhoods such as Roxbury, Dorchester and Jamaica Plain. One of BayBank's new branches offers a state-of-the-art conference room for use by community groups. The bank is also offering in designated neighborhoods a Neighborhood Credit Card, a low-limit ($500) credit card to applicants with little or no credit history.

In any event, even if large profits couldn't be made in lower-income areas, bank government

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[45] "BayBanks Unit Cashes In With Inner City Strategy," *American Banker*, October 12, 1993.

charters, government deposit insurance and the Community Reinvestment Act give banks a special responsibility to fairly serve all their communities.

An additional approach for some banks may be to enter the check-cashing business directly. A few California banks are now doing this. Union Bank of Los Angeles established several free-standing check-cashing outlets around the state, according to the *American Bankers Association Journal.* In Chicago, First Chicago has also opened a free-standing check casher and charges a flat $3 per check, which is less than the average check-cashing charge in New York. In New York City, American Savings & Loan Association is reportedly considering going into this business. If banks charge less than check cashers to cash checks, charge only slightly more than a break-even fee for money orders (certainly not the $2 to $3 money order fee charged by most banks), offer a special lower-fee savings account, and provide for electronic bill-paying, then their opening of check-cashing businesses may be a positive development. Encouragingly, Union Bank has developed a special savings account for check-cashing registrants that has no monthly fee, although interest is paid only after twelve months. According to Richard C. Hartnack, Union Bank vice chairman, "there is money to be made serving the lower-income people bankers have, in effect, shoved into the welcoming arms of check-cashing agents." *American Banker* quoted Hartnack as saying, "The people served by these outlets are predominantly hard-working and may be getting turned off permanently from banking. They find that the banks or thrifts they use have fewer branches in inner cities and less convenient hours, and they have more difficulty cashing checks at retail stores."[46]

Chemical Bank is trying another approach to entice persons away from check cashers. Through ATMs and a special ATM card, "Ready Pay" gives employees of a participating company instant availabilty to cash on payday. Employees can get their pay any time of the day or night, with the employer picking up the transaction charges. And they can withdraw it as they need it, avoiding the risk of carrying large amounts of cash. Statements are mailed to the employees or retained by the employer. On the downside, "Ready Pay" is not, of course, a no-fee savings or low-cost checking account. It makes no provision for paying bills. And it's up to the employer to sign up for the service.

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[46]Bankers Urged To Reclaim Turf Of Check Cashers, *American Banker*, December 15, 1992.

E. Allow Public Assistance Beneficiaries To Save More Money

Currently, public assistance recipients in New York are permitted to maintain up to $1,000 in a bank account to maintain benefits. One reason people use check cashers is that they do not have enough to meet minimum balance requirements at banks, which are typically $1,000. The $1,000 limit on the amount of money public assistance recipients are allowed to save should be increased to allow for individual development accounts (IDAs). Individual development accounts permit additional savings for specific purposes, such as paying for school or buying a home.

Indeed, current public assistance rules together with the inadequate financial services in poor neighborhoods together create a very significant deterrent to saving.
Unless we permit poor families to build up some wealth, they will be forever doomed to the welfare rolls. It takes money to make more money. As Senator Bill Bradley (D-NJ) says, "You can no more spend your way out of poverty than you can borrow your way out of debt."

F. New York State's New "Lifeline" Account Regulation Should Require Truly Low-Cost Banking

In January 1990, a report issued by the New York State Banking Department claimed that low-cost banking services are widely available. The report found that in each of the state's metropolitan areas there are institutions offering checking or savings accounts requiring opening deposits of $100 or less and that, based on an assumption that customers write six to ten checks or money orders a month, total monthly charges come to $1 or less.

The report was disputed by the New York Public Interest Research group in its 1989 report, "Don't Bank On It." NYPIRG said:

- Since each bank was allowed to use its definition of low-cost services, several banks said their accounts -- requiring at least $1,000 on balance -- were "low cost," which they clearly weren't.

- Of 420 banks in the survey, only 34 offered truly low-cost checking accounts -- as "low cost" was defined in the Pennsylvania Banking Department's 1989 study on low-cost banking, which means an outlay of only about $1 a month.

In 1994, New York State enacted a new law requiring banks to offer lifeline accounts. The State Banking Department was given the responsibility of defining exactly what a "lifeline" account is, and they are working on regulations now. If these regulations merely track the basic banking accounts now offered by Citibank, Chase Manhattan and Chemical, then the poor will continue to pay more because *true* low-cost bank accounts are very accessible in middle-income communities but not in poor ones.

True, lower-cost accounts are possible. Chris Lewis, a lobbyist and banking expert with the Consumer Federation of America in Washington, D.C., told us that bank fee often are set as high as the market will bear, no matter the real cost of providing the service. Bounced-check fees are a prime example of over-charging by most banks, he said.

Research Assistance by John Murtha, student intern.

APPENDIX A

Brooklyn and Bronx Bank Branch Closures 1978-1992[1]

By "closure" is meant the complete withdrawal of banking services from a location for a significant period of time by a specific bank. If a bank was closed and another bank moved into the location, it is not included on this list.

Brooklyn

Bank of Commerce	1688 Pitkin Ave.	11212	1978
Bankers Trust	1603 Avenue U	11229	1978
Bankers Trust	1009 Brighton Beach Ave.	11235	1978
Bankers Trust	600 Sutter Ave.	11207	1978
Chase Manhattan	975 Pennsylvania Ave.	11207	1978
Chase Manhattan	239 Kings Highway	11223	1978
Chase Manhattan	4023 2nd Avenue	11232	1978
Chase Manhattan	2 Knickerbocker Ave.	11237	1978
Citibank	1250 Avenue U	11229	1978
MHT	141 Livingston Street	11201	1978
Prudential Savings	961 Broadway	11221	1978
Chase Manhattan	1104 Rutland Road	11212	1979
Chase Manhattan	3363 Fulton Street	11203	1979
Citibank	2054 Rockaway Parkway	11236	1979
Community Nat. Bank	Fort Hamilton	11209	1980
Bankers Trust	317 Grand Street	11211	1981
MHT	29th St. and 3rd Ave.	11236	1981
Bankers Trust	1545 Flatbush	11210	1981
National Westminster	815 Broadway	11206	1982
Bankers Trust	260 68th Street	11220	1983
MHT	1610 Pitkin Ave.	11212	1983
National Westminster	965 Flatbush Ave.	11226	1983
Citibank	9520 Church Ave.	11212	1983
Citibank	113 Church Ave.	11218	1983
Chase Manhattan	1701 Church Ave.	11226	1983
Citibank	265 Avenue X	11223	1983
Citibank	363 E. 43rd St.	11203	1983
Citibank	528 Fifth Ave.	11215	1983
Chase Manhattan	3126 Avenue U	11229	1983
Chase Manhattan	763 Nostrand Ave.	11216	1983
MHT	2590 Atlantic Ave.	11207	1983
MHT	1014 Gates Ave.	11221	1983
Chase Manhattan	354 Flatbush Ave.	11238	1983
MHT	1092 Loring Ave.	11208	1984
MHT	207 Fifth Ave.	11215	1984

[1]Closures of Federal Savings & Loan Associations prior to 1988 are not included. Federal S & L's comprise a very small proportion of the entire banking network.

MHT	2082 Rockaway Parkway	11236	1984
National Westm.	1574 Pitkin Ave.	11212	1984
MHT	1144 Flatbush Ave.	11226	1984
MHT	774 Broadway	11206	1984
Republic Nat. Bnk.	5007 Church Ave.	11203	1984
National West.	901 East 107th St.	11236	1985
Dime SB	De Kalb Ave Station	11201	1985
Chemical Bank	Pratt Institute	11205	1985
Citibank	68-15 Fourth Ave.	11217	1985
Citibank	276 Livingston St.	11201	1985
Chemical Bank	957 Broadway	11221	1985
East NY Savings	1620 Pitkin Ave.	11212	1985
Citibank	86 E. 49th St.	11203	1986
Chase Manhattan	125 7th Avenue	11215	1986
Citibank	86 E. 49th St.	11203	1986
MHT	815 Franklin Ave.	11222	1986
American SB	135 Broadway	11211	1987
Chase Manhattan	450 Avenue P	11234	1987
American Savings	135 Broadway	11211	1987
Chase Manhattan	486 Neptune Ave.	11224	1987
Chase Manhattan	5150 Kings Plaza	11223	1987
Central Nat. Bank	1761 Rockaway Pkwy.	11236	1987
Central Nat. Bank	175 Remsen Street	11201	1987
Citibank	8115 Flatlands Ave.	11236	1987
Dime Savings	2925 Kings Highway	11214	1987
Chemical Bank	Brooklyn College		1987
Chemical Bank	Kingsborough CC	11235	1987
Central National	175 Remsen St.	11201	1987
Dime Savings	2560 Ocean Ave.	11229	1988
Dime Savings	2750 Linden Blvd.	11208	1988
Citibank	Flatbush and Bergen	11217	1988
MHT	84 Broadway	11211	1990
Chemical Bank	100 Seventh Ave.	11215	1990
Freedom National	493 Nostrand Ave.	11216	1990
Freedom National	2848 Church Ave.	11226	1990
MHT	6423 18th Avenue	11204	1991
Crossland FSB	211 Montague St.	11201	1992
Independence SB	1778 86th St.	11214	1992
Banco Popular	1724-26 Pitkin Ave.	11212	1992
Barclays Bank	32 Court St.	11201	1992
Chemical Bank	837 Flatbush Avenue	11226	1993
Chemical Bank	395 Flatbush Ave. Extension	11238	1993
Chemical Bank	1600 Cortelyou Road	11226	1993
Chemical Bank	280 Graham Avenue	11211	1993
Chemical Bank	217 Havemeyer Street	11211	1993
Chemical Bank	5005 13th Avenue	11219	1993
Chemical Bank	894 Manhattan Avenue	11222	1994
Chemical Bank	1165 Rockaway Avenue	11236	1994

Bronx

Chase Manhattan	464 E. Tremont Ave.	10457	1978
Citibank	1717 University Ave.	10453	1978
MHT	1254 Southern Blvd.	10459	1978
Citibank	3399 Boston Road	10469	1979
Citibank	3764 White Plains Rd.	10466	1979
Citibank	2100 Grand Concourse	10457	1980
Chase Manhattan	3350 White Plains Road	10467	1981
Citibank	123 W. Kingsbridge Road	10463	1981
MHT	26 W. Burnside Ave.	10453	1981
Citibank	1855 Bruckner Blvd.	10472	1982
MHT	5 W. Burnside Av.	10453	1982
Eastern Savings	1725 University Ave.	10453	1982
Chemical Bank	9 E. 167th St.	10452	1982
Chase Manhattan	4717 White Plains Rd.	10470	1983
Chase Manhattan	4024 Boston Post Road	10475	1983
Chase Manhattan	121 E. 170th St.	10452	1983
Citibank	845 E. 149th St.	10455	1983
MHT	607 Soundview Ave.	10472	1982
MHT	370 E. 149th St.	10455	1983
Chemical Bank	1 East 170th St.	10452	1983
Chase Manhattan	1130 Zerega Ave.	10473	1984
Chase Manhattan	3015 3rd Avenue	10455	1984
MHT	801 Westchester Ave.	10455	1985
Chemical Bank	1762 Boston Road	10460	1986
MHT	749 E. Tremont Ave.	10457	1986
MHT	410 E. 138th St.	10454	1987
Chase Manhattan	5700 Mosholu Ave.	10471	1987
Chase Manhattan	2 E. Kingsbridge Rd.	10463	1987
Chase Manhattan	1620 Westchester Ave.	10472	1987
Chase Manhattan	789 Lydig Ave.	10462	1987
Chase Manhattan	35 E.1 49th St.	10451	1987
Dime SB of NY	755 Co-Op City Blvd.	10475	1988
Citibank	1848 Eastchester Rd.	10461	1989
Citibank	3899 Sedgwick Ave.	10463	1989
Banco Central	880 Prospect Ave.	10459	1989
MHT	200 E. Gun Hill Rd.	10467	1990
Capital National	429 E. Tremont Ave.	10457	1990
Amalgamated Bank	145 Dreiser Loop	10475	1990
Chemical Bank	2150 White Plains Rd.	10462	1991
Chemical Bank	275 W. 231st St.	10463	1991
NY Capital Bank	429 E. Tremont Ave.	10457	1991
Fleet-Norstar Bank	2460 Grand Concourse	10458	1992
Northside SB	3770 E. Tremont Avenue	10465	1992
Northside SB	1867 Williamsbridge Rd.	10461	1992
Northside SB	4349 Katonah Ave.	10470	1992
Independence SB	1325 Castle Hill Ave.	10462	1992
First Fidelity	3723 Riverdale Ave.	10463	1992
Citibank	One Fordham Hill Oval	10464	1992
National Westminster	299 E. 204th Street	10458	1992
Emigrant SB	1888 Westchester Ave	10473	1992
Fleet Bank	2460 Grand Concourse	10458	1992

Ensign Bank	275 W. 231 Street[2]	10463	1992
Northside SB	3230 Third Avenue	10456	1993
	[sold to Banco Popular which merged it with another branch.]		
Bank Leumi	301 E. Fordham Road		
	[branch bought by Banco Popular and merged it with branch at 345 E. Fordham Road]		
Chemical Bank	326 E. 149th Street	10451	1993
Chemical Bank	2190 White Plains Road	10462	1993
Chemical Bank	1290 Randall Ave.	10474	1993
Chemical Bank	Bay Plaza Shopping Center	10475	1993
Chemical Bank	3555 Johnson Avenue	10463	1994
Chemical Bank	385 East Fordham Road	10458	6/94
Chemical Bank	3480 Boston Road	10469	6/94

[2]One of the branches Chemical Bank closed when transferred from the defunct Ensign Bank.

APPENDIX B

Licensed New York State check cashers, summary statistics.

Year	# of cash-ers	Total value of checks, billions of $	Total cash-ing fees, millions of $	Misc. rev., mill-ions of $[1]	EPFT fees, millions of $	# of checks cashed, millions	# of new licenses issued
1981	353	4.1	31.8	8.5	0	22.9	14
1982	358	4.5	34.7	10.6	0	22.9	16
1983	357	5.2	39.9	11.9	0	25.3	24
1984	350	6.2	46.1	13.8	0	27.9	14
1985	356	7.7	49.7	14.0	4.7	28.0	19
1986	357	8.2	48.8	12.1	17.2	26.6[2]	29
1987	378	7.1	53.7	14.3	18.7	27.3	24
1988	391	7.7	59.6	15.7	18.9	27.4	31
1989	412	8.3	69.5	17.7	19.2	26.7	39
1990	430	8.6	74.2	20.1	21.8	27.9	62
1991	na	8.7	77.6	23.1	24.9	27.3	34
1992	na	10.0	86.6	24.6	26.9	29.7	33
1993	496	na	na	na	na	na	47
Mar. 1994	510	na	na	na	na	na	na

Source: New York State Banking Department reports.

[1]Includes money order fees, lottery fees, utility bill fees, food stamps, money transmission fees and other.

[2]Decline concurrent with implementation of EPFT for public assistance payments.

APPENDIX C

Survey of Check Casher Fees

All licensed check cashers charge a cashing fee of 1.1% of the face amount of a check. Fees for money orders and for utility payments are not regulated. Fees charged by a random sample of licensed check cashers in Broooklyn, the Bronx and Manhattan were checked.

In addition, check cashers offer a money transmission service through Western Union or American Express. Western Union's fee schedule starts at $15 to send up to $100, $22 to send up to $200, and $29 to send up to $300 and increases in increments so that the fee for sending $500 is $40. American Express charges $36 for $500 or more if cash, domestic and Mexico; $45 for ten minute service; $31 for next day service; $39 for Latin America ten minute service; $45 for other international, ten minute service only.

Note: No check casher issues money orders for more than $500. To pay a $550 bill, therefore, the customer has to purchase two money orders, one for $500 and another for $50.

Name/address	Money Order	Con Ed	NY Telephone	B.U.G. Gas
Alivad 956 McDonald Ave. Brooklyn 871-1473	89 cents	70 cents	free	70 cents
Alivad 6218 New Utrecht Ave., Bk'lyn 232-7848	$1.00	70 cents	free	70 cents
Island Check Cashing 1360 Fulton Street Brooklyn 622-7515	$1.00	75 cents	free	free
Ridge Check Cashing 84 Flatbush Ave. 625-6667	$1.00	90 cents	free	90 cents
Argo Check Cashing 581 Clinton Street Brooklyn	99 cents	90 cents	free (within 24 hours)	90 cents
Castle Check Cashing 781 Broadway Brooklyn	89 cents	75 cents	free	75 cents

FulJay Check Cashing 3137 Fulton Street Brooklyn, 647-3576	$1.25	money order	money order	money order
Uneeda Check Cashing 1579 Walton Avenue Bronx 547-4655	75 cents	75 cents (no hook up)	75 cents (no hook up)	n.a.
Uneeda Check Cashing 2292 Crotona, Bronx 294-5540	$1.00	75 cents	75 cents	n.a.
Castle Check Cashing 36 W. Kingsbridge Rd. Bronx	$1.45	30 cents	free	n.a.
Home Check Cashers 4215 3rd Avenue Bronx 294-9283	$1.00	75 cents (no hook up)	75 cents (no hook up)	n.a.
Kimball Check Cashing 101 E. Burnside Ave. Bronx 933-2310	$1.00 up to $10/$1.20 up to $100/$1.40 up to $300/$1.50 up to $500	money order	free	n.a.
Mara Check Cashing 318 E. 170th St. Bronx 681-3235	$1.00 up to $300/$1.50 to $500	$1.00	free	n.a.
Action Check Cashing 2654 Valentine Ave. Bronx, 220-0382	99 cents	money order or 79 cents (no hook up)	free	n.a.
Action Check Cashing 4729A White Plains Road, Bronx, 994-5778	79 cents	59 cents	free	n.a.
Subway Check Cashing 1041 Westchester Ave., Bronx 991-9983	99 cents	$1.00	free	n.a.
C & L Check Cashing 3991 White Plains Rd. Bronx 882-4740	$1.00	75 cents	free	n.a.

R.D.C. Check Cashing 1570 Watson [ ] Bronx, 842-9584	$1.00	money order	money order	n.a.
Wink Check Cashing 739 Astor [ ] Bronx, 515-9568	$1.00	75 cents	free	n.a.
PR Check Cashing 335 E. 143rd Street Bronx, 665-9494	$1.00	75 cents	free	n.a.
Franklin Check Cashing, 473 Lenox Ave., Manhattan 690-2257	89 cents	money order	free	n.a.
G & R Check Cashing 104 W. 43rd Street Manhattan 221-6160	$1.00	85 cents	free	n.a.
Uneeda Check Cashing 250 Houston Street Manhattan 982-7641	$1.00	75 cents	free	n.a.
East Broadway Check Cashing 152 E. Broadway Manhattan 267-8060	$1.00	money order	free	n.a.

APPENDIX D

Incidence of bank branches closing and check cashers opening within five short or three long blocks within four years.

Bronx

Zip code area	Year branch closed	Name of closing bank	Year check casher opened
10452	1982	Chemical Bank	1986
10453	1983	Manufacturers Hanover	1986
10455	1987	Manufacturers Hanover	1990 1992
10455	1984	Chase Manhattan	1986
10455	1985	MHT	1990
10456	1989	Banco Central	1990
10452	1982	Chemical Bank	1986
10459	1978	MHT	1979
10472	1987	Chase Manhattan	1987
10453	1982	MHT	1984
10457	1980	Citibank	1980

Brooklyn

Zip code area	Year branch closed	Closing bank	Year and distance
11211	1981	Bankers Trust	1982
11206	1984	Manufacturers Hanover	1987
11238	1988	Citibank	1989
11234	1987	Chase Manhattan	1990
11224	1987	Chase Manhattan	1989
11223	1983	Citibank	1983
11205	1985	Chemical	1989

APPENDIX E

Results of Survey of
Customers Exiting Banks, August 1991

For two weeks in August, 1991, City Volunteer Corps volunteers asked 1,163 people leaving bank branches in 28 different locations if they were regular customers of the bank they were exiting and, if they were, how long they usually wait to see a teller there. Volunteers wore uniforms, carried clipboards and identified themselves as performing a survey for the Consumer Affairs Department.

Banks were randomly selected in a range of lower-income and middle-income, affluent and commercial neighborhoods.

	# of responses in low-income areas	% of total responses in low-income areas	# of responses, other areas	% of responses in other areas
Less than one minute	59	9.5	156	28.4
About one to five minutes	139	22.6	234	42.7
About five to ten minutes	170	27.6	110	20.0
Ten to fifteen minutes	99	16.0	37	6.7
Fifteen minutes to half an hour	97	15.7	10	1.8
More than half an hour	51	8.2	1	0.1
Total responses	615		548	

BANKS SURVEYED

Lower-income neighborhoods:

Manufacturers Hanover Trust, 300 W. 125th Street, Manhattan
Citibank, 116th Street and Lexington Ave., Manhattan
Chemical Bank, 209 W. 125th Street, Manhattan
Chemical Bank, 149th Street and 3rd Avenue, Manhattan
Chase Manhattan, 3rd Avenue and 137th Street, Manhattan
Manufacturers Hanover, 975 Bedford Avenue, Brooklyn
Citibank, 1396 Fulton Street. Brooklyn

Lincoln Savings Bank, 531 Broadway, Brooklyn
Manufacturers Hanover, 257 Utica Avenue, Brooklyn
National Westminster Bank, 880 Quincy Avenue, Brooklyn
Apple Bank, 880 Grand Concourse, Bronx
Chase Manhattan Bank, Fordham Road and Jerome Avenue, Bronx

Other neighborhoods:

Citibank, 86th Street and 4th Avenue, Brooklyn
Emigrant Savings Bank, 1617 Avenue M, Brooklyn
Greater NY Savings Bank, 110 7th Ave., Brooklyn
Chase Manhattan Bank, 20th Avenue, Brooklyn
Citibank, 102-29 Queens Blvd., Queens
Chase Manhattan Bank, Queens Blvd., Queens
Citibank, 238th Street and White Plains Road, Bronx
Chase Manhattan Bank, Beaver Street
First Nationwide Bank, 26 Broadway
Citibank, Fulton and Water Streets
Chemical Bank, 52 Broadway
Chemical Bank, 74th Street and Madison Ave.
East New York Savings Bank [Manhattan - Mad ave]
Citibank, 1 Broadway
Chase Manhattan Bank, 73rd Street and Broadway
Citibank, 79th Street and 1st Avenue

CBA BASIC BANKING STUDY

An Analysis of the 1993 Survey

CONSUMER BANKERS ASSOCIATION

CBA Basic Banking Study

An Analysis of the 1993 Survey

Consumer Bankers Association

The Consumer Bankers Association was founded in 1919 to provide a progressive voice for the retail banking industry. CBA represents approximately 800 federally insured banks and thrift institutions that hold more than 80 percent of all consumer deposits, and more than 70 percent of all consumer credit held by federally insured depository institutions.

This publication is designed to provide accurate and authoritative information in regard to the subject matter covered. It is distributed with the understanding that the publisher is not engaged in rendering legal, accounting or other professional service. If legal advice or other expert assistance is required, the services of a competent professional person should be sought.
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CONSUMER BANKERS ASSOCIATION
BASIC BANKING SURVEY

Introduction

The Consumer Bankers Association conducted a survey of its members during Spring, 1993, to measure the availability of basic banking accounts and government check cashing service for non-customers. The survey confirms a continuing and increasing trend: most banks (nearly 95%) offer basic banking accounts and the vast majority of banks surveyed (more than 70%) also cash government checks for non-customers at little or no cost to those individuals.

The survey shows that financial institutions have made great strides in meeting the basic banking needs of low- and moderate-income Americans. Basic banking accounts, designed to accommodate the check-writing needs of low- and moderate-income consumers (or those with limited banking needs), are today available at a substantial number of financial institutions in all regions of the country. Many financial institutions also provide limited check cashing services to non-customers, primarily in the form of government check cashing.

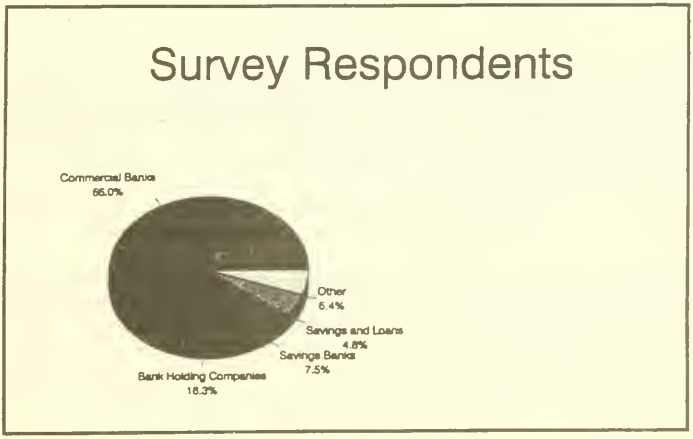
Basic banking accounts, also referred to as "lifeline" checking accounts, are designed to provide limited check-writing privileges at prices lower than those assessed for traditional checking account services. These accounts have been a subject of debate in legislative circles for the past several years. Some lawmakers have argued that financial institutions should be required to offer such accounts to low income individuals, or, at a minimum, provide check-cashing services to non-customers who receive assistance checks from state and federal government agencies.

A separate survey conducted by CBA in 1992 (The Affordable Mortgage Survey) also found that significant numbers of financial institutions offer basic checking accounts and check cashing services to low- and moderate-income consumers. CBA's latest research suggests even larger numbers of financial institutions are offering such services.

2pis

About the CBA Research

The CBA Basic Banking Survey was distributed to approximately 700 CBA member depository institutions, with telephone follow-up, and elicited responses from 147 banks, thrifts and holding companies representing a broad cross-section of U.S. depository institutions. Sixty-six percent of the individuals who completed the survey were from commercial banks, 16.3% represented bank holding companies, 7.5% represented savings banks, 4.8% were from savings and loan associations, and 5.4% indicated "other" types of financial institutions (primarily trust banks or non-bank affiliates).



The average asset size of institutions represented in the survey was $9.9 billion. The largest institution reported assets of $187 billion and the smallest reported assets of $250 million.

Most financial institutions operate multiple branches. The average number of branches reported by institutions was just over 131; the largest participating institution reported 1800 branches.

Holding companies that took part in the survey reported an average of 6.39 banks; the largest holding company had 75 banks and the smallest had one (1) bank.

The geographic distribution of financial institutions represented in the survey mirrors closely the overall geographic make-up of the U.S. commercial bank and thrift industries. The majority are located in Southern and Midwestern states; smaller numbers operate in Northeastern and Western states.

Regional Distribution of Survey Respondents:

Northeast	22.4%
South	36.7%
Midwest	35.4%
West	19.0%

(Many institutions serve markets that cross traditional geographic boundaries. Hence, the market representations, when added together, exceed 100%.)

Tracts - of 1 Respondents.

Pervasiveness of Basic Banking Programs

A clear majority of financial institutions offer basic, no-frills checking accounts and impose no eligibility requirements on consumers seeking to establish such accounts. Of those institutions polled by CBA, **94.6%** offer basic banking accounts: 5.4% do not. Among the institutions that offer such accounts, **75% impose no eligibility requirements.**

94.6% offer basic banking accounts
75% impose no eligibility requirements

Eligibility requirements established by the institutions that set conditions for the opening of basic banking accounts vary somewhat, but focus primarily on the need to properly identify prospective account-holders and the need to ensure that these individuals have no prior involvement with questionable check-writing activities.

For those institutions that do have eligibility requirements, the specific eligibility requirements associated with basic banking accounts offered by CBA survey respondents include:

* Proof of identity
* Individuals only; businesses and organizations do not qualify
* Must participate in federal, state or local assistance programs
* Must have satisfactory credit history
* No history of checking accounts closed by other institutions
* Income of less than $20,000 a year
* Write six (6) checks or less each month
* Maintain account in good standing
* Six (6) month residency

For the most part, financial institution executives believe basic banking services are well-accepted among low- and moderate-income consumers. Of those surveyed, **87.8% say the accounts offered by their institutions are widely used by targeted market groups**; only 12.2% believe the accounts are not well utilized by targeted consumers.

Basic Banking Account Features

As the phrase suggests, basic banking accounts provide simplified, no-frills services to consumers who have basic check-writing and deposit needs. The accounts are characterized by low monthly service fees, little or no required opening deposits, and a set number of checks that can be written without the imposition of additional charges.

Fee Structure

Fixed monthly service fees charged by financial institutions for basic banking accounts average $3.14.

Not all financial institutions assess monthly service fees for basic banking accounts. Many will forego the fees if a customer agrees to direct deposit of payroll or government assistance checks.

As pressures mount for financial institutions to control costs, growing numbers are turning to direct deposit, urging all customers to use this electronic funds transfer technique. To help realize the savings promised by direct deposit, many banks and thrifts offer free checking services to customers who agree to the direct deposit of payroll and/or government checks.

Only 7.2% of respondents with basic banking impose minimum balance requirements. The average amount asked by financial institutions that do require minimum balances is $201.82.

Minimum opening balances are required by 65.9% of the institutions. Among those that require minimum deposits to open these accounts, **the average required deposit is $58.93.**

Minimum Opening Deposit

Lowest:	**$0.01**
Highest:	**$300.00**
Average:	**$58.93**

Most financial institutions that offer basic banking services allow customers to write a set number of checks without charge and assess modest fees for each check written in excess of that number. CBA survey results indicate that **72.7% of the responding financial institutions offer free check-writing privileges, up to an average of 9.86 checks each month.** Only 16.5% of the banks which responded to the survey do not offer free check writing privileges. And **10.8 % of the respondents offer unlimited check writing on basic banking accounts. Thus, 83.5% offer either a limited or unlimited number of free checks per month.**

The number of checks that can be written each month without charge varies widely among institutions, but generally accommodates the basic check-writing needs of low- and moderate-income consumers.

Number of Free Checks/Month

Lowest:	**4**
Highest:	**25**
Average:	**9.86**

Among those banks and thrifts that charge account-holders for checks written over a certain number, prices also vary widely, but average about 51¢ for each check written over the established ceiling. The highest amount charged was $1.00 per check over the established limit and the lowest was 5 cents per check.

It has been suggested by some observers that financial institutions offering basic banking services will require consumers of those services use **automated teller machines (ATMs)** rather than transact business inside a branch via a human teller. CBA's research, however, refutes these suggestions. At only 4.4% of the responding institutions that offer basic banking services are account-holders limited to accessing the bank through ATMs exclusively; **95.6% of the institutions that offer basic banking services impose no ATM use requirements** on customers who maintain those accounts.

Marketing Basic Banking Accounts

Basic banking accounts present a unique challenge to the marketing prowess of financial institution executives. Because many of the consumers who make up the target markets for these accounts have little or no interaction with financial institutions, marketing techniques traditionally used to lure new accounts to banks and thrifts may not be viable for marketing basic banking services.

In addition, many consumers may be biased against bank checking accounts, even low-cost accounts. Surveys by independent researchers suggest that large numbers of so-called "unbanked" Americans simply are not clamoring for checking services. For example, a recent survey by Synergistics Research Corp., an Atlanta firm that routinely polls consumers on their banking preferences, found interest in such accounts among only one in four of those lower-income consumers who do not already maintain checking accounts. The majority of consumers surveyed by the firm (62%) indicated a preference for using cash or money orders.

Financial institutions have made a concerted effort to market basic banking accounts to lower-income Americans. An overwhelming majority (98.6%) also provide assistance to consumers who are unsure of how to open and/or manage checking accounts.

The following list details some of the most common methods used to market basic banking accounts:

* Community Outreach Programs
* Special Seminars
* Direct Customer Contact (e.g.: explaining the account to consumers who cash government checks at the institution)
* Community Reinvestment Act Materials
* Brochures
* Direct Mail Campaigns
* General Media Advertisements (television, billboards, newspapers, etc.)
* Targeted Media Advertisements (e.g.: church or community association bulletins)
* Point of Sale Materials
* Tell-a-Friend Coupons

Government Check Cashing Services

Despite efforts by financial institutions to provide basic banking services to low- and moderate-income Americans, many of these individuals continue to shun checking accounts. This poses a particular dilemma for those who receive assistance checks from state and federal government agencies. Without a connection to a financial institution in the form of a checking account, many of these individuals (who include some of the poorest Americans) turn to check cashing outlets. These outlets typically charge a percentage of the face amount of a check as compensation for cashing the check.

CBA's research indicates that check cashing outlets are not the only places available to "unbanked" Americans wishing to cash government checks, however. **More than seven in ten (72.4%) of the financial institutions that responded to CBA's survey cash government checks for non-customers,** and more than half (52.9%) of those institutions **do not charge** for the service. Among financial institutions that charge to cash government checks, the average fee is $3.53. This is considerably less than the fees generally charged by check cashing outlets.

Virtually all financial institutions that cash government checks require some form of identification before agreeing to handle these checks; typically a drivers license or a non-drivers ID card is requested of consumers tendering these checks.

Conclusions

The results of the CBA survey indicate that low-cost basic banking accounts are readily available to consumers in every region of the country, and that the availability of such accounts has dramatically increased in the last few years. For those individuals who do not feel the need to open a bank account, the majority of banks cash government checks for noncustomers at fees considerably less than those charged by check cashing outlets. Customers have a variety of options to choose from when shopping for a basic bank account, ranging from no minimum or opening balance and a smaller number of free checks per month to somewhat higher balance requirements with a greater number of free checks. Direct deposit, which is a safety consideration as well as a recognized convenience, is almost always available, and most institutions encourage its use.

Most institutions that responded to the survey recognized the need for targeted marketing of these products and had aggressive marketing programs to advertise and explain their basic banking accounts in low- and moderate- income communities. There was, however, some frustration on the part of a number of respondents to the survey (12.2%), who felt that the low-cost checking accounts offered by their institutions are not widely utilized by targeted customers.

In addition to marketing efforts in targeted communities, virtually all of the responding institutions (98.6%) provide assistance to consumers who are unsure of how to open and/or manage checking accounts. Some of these efforts are made through community outreach programs and special seminars, or through direct customer contact with individuals who come into an institution to cash a

government check.

The survey clearly shows that efforts being made to improve access to banking services in low- and moderate-income communities are having an impact.

Consumers Union
Publisher of Consumer Reports

Submission of Michelle Meier
Counsel for Government Affairs
CONSUMERS UNION
to the Subcommittee on Financial Institutions
Committee on Banking, Housing and Urban Affairs

Hearing on Access to Banking Services
August 11, 1994

I am pleased to submit the attached information in connection with this week's hearing on access to banking services. Basic financial services must be available to all Americans, rich and poor alike, because they are critical to survive and get ahead in modern society.

Since we only received notice of the hearing two days before its scheduled occurrence, CU is unable to prepare a formal statement. We have attached, however, several brief documents that address many of the "access" issues. We think these documents will be useful to members of the subcommittee concerned about these questions.

The attached documents include the following:

- CU statement criticizing various aspects of federal EBT Task Force report (May 31, 1994)

- Joint statement outlining EBT implementation issues submitted by recipient representatives to Federal EBT Task Force (March 21, 1994)

- Joint statement by national and local consumer and community groups on need for giving greater weight to whether a bank has branch offices in lower income neighborhoods under CRA (March 24, 1994)

- "The High Cost of Check Cashing," a report prepared by CU's West Coast Regional Office (May 1994)

Thank you for circulating these materials for the hearing, and including them in the hearing record.

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Consumers Union
Publisher of Consumer Reports

NEWS

For Immediate Release
May 31, 1994

Contact: Laura Weiss
Michelle Meier
(202) 462-6262

STATEMENT OF MICHELLE MEIER
COUNSEL FOR GOVERNMENT AFFAIRS
CONSUMERS UNION

May 31, 1994

GORE ELECTRONIC BENEFITS TRANSFER TASK FORCE REPORT GIVES PUBLIC ASSISTANCE RECIPIENTS A RAW DEAL

The electronic benefits transfer (EBT) report released today by Vice President Al Gore is a disaster for public assistance recipients. The Administration wants to call this "reinventing government," but bowing to the banks and to political pressure from states that want to balance their budgets on the backs of poor people is just more business as usual.

We are very disappointed that the Administration appears to be laying the groundwork for cutting the safety net out from under poor people. Many of the policy directives included in the report are a kick in the teeth to the poorest among us.

The report released today describes many of the policies under which the Administration plans to operate in transforming the various public assistance programs from the current paper-based delivery system to electronic delivery. When EBT is fully operational, AFDC and other cash assistance recipients will receive their benefits through ATM machines, and food stamp recipients will use point of sale (POS) terminals at the grocery store to access their benefits.

Consumers Union fully supports converting the current programs to electronic delivery, a process that was begun during previous Administrations. **Judging by this report, however, we seriously question whether the Administration will fairly protect the interests of recipients or taxpayers in the process:**

- **The report emphasizes only the costs and none of the benefits of the critical protections contained in Regulation E.** Regulation E, which has been on the books since 1979, contains basic protections that help consumers document ATM transactions, reverse mistakes, and bear only a portion of the cost when funds are stolen from their account.

-more-

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By law all consumers, except those participating in state-run EBT pilots, enjoy the protections of Regulation E. But late last year, Vice President Gore asked the Federal Reserve Board to exempt EBT from the Regulation for at least 3 more years. The Board granted that request in February.

• **Even though little is known about the economics of nationwide EBT, the report already indicates that recipients will be forced to pay to withdraw their funds from ATM machines.** Obviously, any withdrawal fee will be a significant burden to public assistance recipients who, by definition, rely on the assistance to meet their very basic financial needs. But banks nationwide stand to gain a huge windfall as a result of the Administration's policy decision.

According to the Administration, access charges are to reflect roughly the "per transaction" fee imposed by ATM networks. Consumers Union believes, however, that these costs could be more than offset by other cost savings associated with nationwide EBT. Consumers Union has also urged the Administration to bargain for ATM transaction fee reductions that reflect the tremendous new source of business and profit EBT represents for the banking industry. Consumers Union believes it is far too early to decide to impose access charges on recipients since these other options have not been fully explored.

Banks and other ATM network owners will be the biggest beneficiaries of the Administration's apparent decision to take the path of least resistance. Only recently the Justice Department charged one major ATM network with monopolistic pricing. The Administration appears to be accepting what might be monopolistic ATM pricing throughout the industry by making welfare recipients eat the cost. This is deplorable.

• **The report indicates that each federal agency will develop its own rules for recipients to follow if they can't gain access to their benefits because of theft, machine error or malfunction, or other problems.** Consequently, recipients will face a maze of differing rules and procedures. And taxpayers will be forced to pay dearly for the resulting inefficiency of overlapping bureaucracies.

Consumers Union believes that basic rules addressing these issues should be standardized across all programs and states that participate in EBT.

###

Consumers Union, publisher of Consumer Reports, is a nonprofit organization established in 1936 to provide consumers with information and advice on goods, services, health, and personal finance, and to initiate and cooperate with individual and group efforts to maintain and enhance the quality of life for consumers.

March 21st, 1994

To: Federal EBT Task Force

From: Food Research and Action Center
Center on Social Welfare Policy and Law
Consumers Union
Consumer Federation of America
Jesuit Social Ministries
Migrant Legal Action Project
Coalition on Human Needs

Implementation of a federal, nationwide EBT system must include federal standards which govern all states and benefit programs. Per your request, the following is a list of some of the areas in which federal standards are needed. We look forward to discussing these issues with you at the March 22nd meeting.

- Back-up Systems. There must be uniform standards governing the availability and use of back-up systems in the event of EBT system failure.

- Transaction fees and limits. Transaction fees and limits should be prohibited. Other methods of cost-savings must be explored rather than passing costs along to recipients.

- Client training and literature. Standards should be developed which govern training requirements, including standards for materials and literature, hands-on training, and training of special populations such as the elderly, the non-English speaking and persons with low literacy levels.

- System Accessibility. Equipment must be deployed in such a way that all recipients have easy access to the EBT system. Recipients must not face increased transportation or food costs, limited food choices, or difficulty in accessing cash benefits due to lack of easy access to the EBT system.

- Accommodation for disabled recipients. Special accommodation must be made for recipients who, because of physical or mental impairment, cannot use the EBT system.

- Error resolution. There must be uniform procedures for quick and easy resolution of errors in crediting or debiting accounts.

- System security. Systems must be protected against access and fraud by unauthorized third parties.

- Card replacement. There must be uniform procedures for replacement of lost and stolen cards.

- Third party fraud. There must be uniform recipient

protections against liability for loss of benefits due to third party theft or fraud.

- Privacy protections. There must be uniform protections against collection and use of recipient information available through EBT systems.

- Conversion. Recipients must be able to convert EBT benefits when leaving a state. Unless and until EBT is nationwide with uniform access everywhere, there must be easy processes by which recipients leaving or entering an EBT area can continue participation in a benefit program.

- Transaction history. Recipients must have access to account balances and transaction histories. Access cannot be limited to touch-tone phone hotlines since many recipients do not have telephones, especially touch-tone phones.

CRA REFORM MUST HELP MAKE BRANCH OFFICES AVAILABLE IN LOWER INCOME NEIGHBORHOODS

March 24, 1994

William W. Wiles
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Ave., NW
Washington, DC 20551
Docket No. R-0822

Hoyle L. Robinson
Executive Secretary
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429
RIN 3064 - AB27

Director, Information Services Division
Public Affairs
Office of Thrift Supervision
1700 G Street, NW
Washington, DC 20552
Attention: Docket No. 93-234

Communications Division
Office of the Comptroller of the Currency
250 E Street, SW
Washington, DC 20219
Attention: Docket No. 93-19

Dear Bank Regulator:

Our organizations believe that federally insured banks should serve the convenience and needs of their entire community, particularly regarding their branch office locations in lower income neighborhoods. We strongly urge the federal banking regulators to elevate the significance of a bank's branch office locations under the proposed new Community Reinvestment Act (CRA) regulations, currently out for public comment.

The pending CRA reform proposal marginalizes the importance of providing branches in lower income neighborhoods. Unless modified, the proposed regulations will give banks little, if any, incentive to establish the branch offices so desperately needed there.

Branch Offices Are Critical In Lower Income Neighborhoods

When bank branches are not available, consumers often are forced to do without the basic banking services that are necessary to function in today's economy. Without branch offices:

- consumers are forced to use exorbitantly priced services to cash their checks, obtain multiple money orders, wire transfer funds and meet other basic needs
- consumers are forced to take the physical and financial risk of carrying large sums of money around to pay bills
- consumers are denied the opportunity to establish the banking relationships that are often necessary to qualify for traditional and competitive forms of credit.

Banks have closed hundreds of branch offices during the consolidation and merger wave of the past decade. Unless the revised CRA regulations recognize the critical importance of branch offices, branch offices will become less available, rather than more available, in lower income neighborhoods.

The CRA Proposal Marginalizes the Importance of Branch Offices

Under the proposal, only the Service Test will focus on whether a bank has done a good job of placing branches in lower income neighborhoods. However, the Service Test grade will have only a marginal impact on a bank's composite, or overall, CRA rating because it can affect the Lending Test score by only one grade in either direction and then only in very limited circumstances.

For example, under the proposal a bank's composite CRA rating is not affected at all if its Service Test score is "needs to improve." This low Service Test score results even when "an insignificant percentage" of a bank's branches are in or readily accessible to lower income neighborhoods, so it should have some impact on the composite rating. Moreover, an institution with no branches at all in lower income neighborhoods -- receiving a "substantial non-compliance" Service Test score -- could still receive an "outstanding" composite rating. This renders the Service Test a complete nullity.

We strongly urge the regulators to help deter against the banking industry's abandonment of lower income neighborhoods by putting the Service Test on a closer par with the Lending Test.

- **Banks should be required to receive a passing grade under both tests to receive a passing composite CRA rating.**

- **Alternatively, the Service Test score should have a bigger impact on the base Lending Test score. At the very least, a "substantial non-compliance" score on the Service Test should result in a 2 point, rather than 1 point, reduction of the Lending Test score for composite scoring purposes. A "needs to improve" should produce a 1 point reduction.**

The CRA reform initiative provides an historic opportunity to help reverse the banking industry's trend toward closing, or never opening, branches in lower income neighborhoods. Unless the pending proposal, which marginalizes the importance of the Service Test, is modified, this critical opportunity will be wasted.

Yours truly,

American Association of Retired Persons, Texas Legislative Committee
American Council on Consumer Awareness
Arizona Consumers Council
Austin Tenants Council
Azteca Economic Development and Preservation Corporation (TX)
California Homeless and Housing Coalition
California Reinvestment Committee
Center for Law and Social Justice at Medgar Evers College (NY)
Center for Public Interest Research (MI)
Chicago Consumer Coalition
Citizen Action of New York
Community Prevention for Reducing Alcohol and Drug-Related Problems (CA)
Community Service Society of New York
Concerned Consumers League of Wisconsin
Connecticut Urban Reinvestment Endowment
Consumer Action (CA)
Consumer Federation of America
Consumer Federation of California
Consumer Fraud Watch (FL)
Consumers League of New Jersey
Consumers Union
CURE, Connecticut Urban Reinvestment Endowment, Inc.

East Fulton Street Group/Communiversity/21st Century Partnership (NY)
Georgia Consumer Center
Harlem Consumer Education Council
Harlingen Community Development Corporation (TX)
Idaho Consumer Affairs, Inc.
Institute for Community Economics (MA)
Isles, Inc. (NJ)
La Cooperative Campesina de California
Legal Aid Foundation of Los Angeles
Legal Aid Society of Alameda County (CA)
Long Island Housing Services
Maryland PIRG
Mid-South Peace and Justice Center
Minnesotans for Safe Foods
Mount Vernon United Tenants
National Black Alcoholism Foundation, Bay Area Chapter
National Coalition for the Homeless
Neighborhood Housing Services of New York City
Neighborhood Preservation Coalition of New York State, Inc.
NETWORK: A National Catholic Social Justice Lobby
New York State Rural Housing Coalition
New York Consumer Assembly
New York Law School, Housing Law Clinic
New York PIRG
Niagara Frontier Consumers Association
North Carolina Consumers Council
Oregon PIRG
Pennsylvania Citizens Consumer Council
PPEP & Affiliates (AZ)
Public Citizen's Congress Watch
Queue-Up (CA)
Rhode Island Community Reinvestment Association
Sacramento Urban League
San Francisco Neighborhood Legal Assistance Foundation
Self-Help Credit Union (NC)
State Senator Franz Leichter (D.L. Manhattan)
Steve McIntyre, Attorney at Law (TX)
Syracuse Community Reinvestment Coalition
Syracuse United Neighbors
Texas Alliance for Human Needs
Texas Community Development Association
Texas Consumer Association
Texas Low-Income Housing Information Service

Travis County Housing Authority (TX)
U.S. PIRG
United Housing Program (TX)
United Tenants of Albany
Vermont PIRG
Virginia Citizens Consumer Council
Washington PIRG
Washington Reinvestment Alliance
Westchester Housing Fund
Westchester Residential Opportunities
Wisconsin Consumers League

The High Cost of Check Cashing

A Report Prepared by the
Consumers Union of U.S., Inc.
West Coast Regional Office

Thipphavone S. Phabmixay
Fellow for Economic Justice
Consumers Union of U.S., Inc.
West Coast Regional Office
May 1994

This report was prepared by the West Coast Regional Office of Consumers Union of U.S., Inc.

Consumers Union of U.S., Inc.

The West Coast Regional Office represents consumers' interests, with a focus on the concerns of low and moderate income consumers. Office staff advocates on behalf of consumers in the legislature, administrative agencies, and the courts. The office regularly works in coalition with other groups on public education campaigns. Consumers Union's income is derived from the sale of *Consumer Reports*, its other publications and from nonrestrictive, non-commercial contributions, grants and fees. Consumers Union's publications carry no advertising and receive no commercial support.

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Summary

This report examines the cost of cashing checks in the Bay Area. It is a result of Consumers Union's survey of check-cashing outlets in Berkeley, Oakland, San Francisco, and San Jose. We found that check-cashing outlets charge an average of 2% of the amount of the check. This means that a family with $15,000 annual take-home pay would spend $300 per year to convert their paychecks into cash at check-cashing outlets. This is more expensive than using banks, yet many consumers use check-cashing outlets because they have no other choice.

The report offers the following recommendations: consumers must be knowledgeable about the long-term costs of using check-cashing outlets versus the costs of maintaining bank accounts, the Legislature should lower the check-cashing fee ceiling, and banks should increase their services and marketing efforts in low-income communities.

Introduction

On October 1993, Consumers Union released *The Thin Red Line: How the Poor Still Pay More*, a report documenting how the poor pay more for their basic needs. Unlike their middle-income counterparts, low-income consumers often spend a larger portion of their income on food, housing, health care, and banking services. That report shows that retail prices are higher, while quality of and access to goods and services are lower in low-income urban areas.

Banking services are no exception. This report focuses on check-cashing outlets—which are "banks" for many residents of low-income neighborhoods. It examines the fees charged by check-cashing outlets and the reasons why consumers use them.

Banking services are a necessity. Consumers who receive payroll, government assistance or other checks need a place to deposit and/or cash them. Some creditors may not be set up to accept cash payments, requiring instead checks or money orders. In other cases, such as rental payments, it may be to the consumer's disadvantage to pay in cash. Thus, banking services, including check-cashing and check-writing features, are basic services that all consumers need.

Despite the increasing need for banking services, the percentage of Americans with checking accounts has decreased in the past decade. According to the Federal Reserve, the percentage of U.S. families with checking accounts decreased from 79% to 75% from

1983 to 1992.[1] For these millions of people without bank accounts, check-cashing outlets may be the only place to conduct necessary financial transactions.

Many customers who use check-cashing outlets have little economic or political power. There have been reports that these consumers are being grossly overcharged by unscrupulous check-cashers.[2] Many low-income individuals who cannot afford checking accounts or have no convenient access to bank branches spend a large portion of their limited disposable income on basic financial transactions. Consumers Union conducted a survey of the fees charged and services provided by check-cashing outlets in Berkeley, Oakland, San Francisco, and San Jose to determine the cost to consumers of check-cashing services in the Bay Area.

Part One of this report provides a general overview of the check-cashing industry, including its services, fees, and business structure. Part Two lists check-cashing fees in the Bay Area. Part Three examines the high cost of cashing checks. Part Four explores reasons people use check-cashing outlets. Part Five looks at current laws regulating the check-cashing industry, and Part Six offers recommendations for change.

I. The Check-Cashing Industry

Overview of the Industry

The check-cashing industry has grown rapidly in the last decade. Between 1987 and early 1992, the number of check-cashing outlets in the country more than doubled, rising from about 2,000 to about 5,000.[3] According to the National Check Cashers Association, there were 5,000 check-cashers in the U.S. in 1993. California has approximately one-fifth of this total, with 1,031 check-cashing outlets.[4] The majority of check-cashing outlets are owned by local independent operators, many of whom own three to ten outlets in a given area.[5] However, there are also large national chains: ACE America's Cash Express owns

1 Federal Reserve Bulletin, *Changes in Family Finances from 1983 to 1989: Evidence from the Survey of Consumer Finances*, January 1992, at 7.

2 "I view these [check-cashing] places as parasites", said Frank Trinity, a staff attorney with the Legal Clinic for the Homeless in Washington D.C., *quoted in* Michael Hudson, *Should Regulators Check Up on Check Cashers?*, Business and Society Review, 1993, at 48. The Los Angeles Times quoted Mr. Perry of the Nix Check Cashing chain as follows: "A few unscrupulous [check-cashing] stores charge as much as 20 percent of a check's value to cash it." Jan. 17, 1993.

3 Mike Hudson, *The Poverty Industry*, Southern Exposure, Vol. XXI No. 3, Fall 1993, at 18.

4 Telephone inquiry to the California Check Cashers Association, March 2, 1994.

5 John P. Caskey, *Fringe Banking: Check-Cashing Outlets, Pawnshops and the Poor* (Russel Sage Foundation, New York, forthcoming July 1994).

over 100 outlets and offers publicly traded stock. Western Union, a money wiring service company, also is developing a national network of check-cashing outlets.[6]

The check-cashing industry has become a multi-billion dollar industry. The industry estimates that the 5,000 check-cashing outlets nationally cash more than 150 million checks a year with a face value of more than $45 billion in 1993.[7] These estimates assume that each outlet cashed an average of 30,000 checks a year, or typically about 100 per day. Experts estimate that the check-cashing industry earned approximately $700 million in fees from this activity in 1990.[8]

Location of Check-Cashing Outlets

Check-cashing outlets are disproportionately located in major urban areas, generally in low-income neighborhoods. In South Central Los Angeles alone, there were 133 check-cashing outlets in 1991.[9] The same area had only 19 bank branches.[10] Most of the check-cashing outlets in San Francisco, for example, are located in areas with a large concentration of low-income and minority people such as the Mission, Hunters Point and the South of Market Street area.

II. Fees Charged in San Francisco Bay Area

Check-Cashing Fees

Check-cashing outlet fees are usually expressed as a percentage of the face value of the check. In California, the maximum permissible fee is 3% of the face amount of the check if the customer has identification, or 3.5% if a customer has no identification. The limit applies only to government and payroll checks. We found that check cashers charged approximately 2% of the face value of these checks. There is no statutory limit on fees that can be charged for personal checks, money orders, travelers checks, insurance drafts, or cashiers checks. We found much higher fees for personal checks.

In late 1993 and early 1994, Consumers Union conducted a survey of rates charged by check-cashing outlets in the cities of Berkeley, Oakland, San Francisco, and San Jose. We contacted by telephone all check-cashing outlets advertised in the San Francisco, San Jose,

6 Wall Street Journal, August 23, 1991.

7 Caskey, *Supra* note 5.

8 *Id.*

9 Consumers Union, *The Thin Red Line: How the Poor Still Pay More*, June 1993, at 10.

10 *Id.*

and Oakland/Berkeley Pacific Bell Yellow Pages. To verify information given over the telephone, Consumers Union staff visited 13 of these outlets. In addition, volunteers cashed government assistance or payroll checks at seven outlets in San Francisco and reported the fees charged. The results of the survey follow:

San Francisco
Fees for Cashing a Public Assistance/Payroll Check

Name	$615 Check[11]	
Any Kind Check Cashing	2.27%	($13.96)
Bayview Check Cashing	2.5%	($15.38)
C & C Check Cashing	2.15%	($13.22)
Check Stop Check Cashing	2.25%	($13.84)
Check -X-Change	3% 2%	($18.45) (1st time) ($12.30) (thereafter)
Checkers International	1.5%	($9.23)
Express Check Cashing	1.95%	($11.99)
G & H Liquor	2%	($12.30)
Gold Star Check Cashing	1.95% + $.65	($12.64)
Manor Investment Co.	2.15% + $.50	($13.72)
Mission Check Cashers	2.25%	($13.84)
Mizirawl Corp.	2%	($12.30)
Quick Check Cashing	2% 1.5%	($12.30) (1st time) ($9.23) (thereafter)
San Francisco Check Casher	1.5%	($9.23) chk. under $1,000 2% chk. over $1,000.
S.F. Check Cashing Co.	2.5%	($15.38)
Supermail International	2.25% + $.50	($14.34)
Third Street Check Cashing	1.5%	($9.23)
United Cash A Check	2%	($12.30)
Westwood Check Cashing	2% 1% with $10 or more purchase	($12.30)

11 Approximate net monthly income of a full-time person earning the minimum wage of $4.25.

Oakland and Berkeley Fees for Cashing a Public Assistance/Payroll Check		
Name	$615 Check	
AAA Discount Check Cashing	2.5%	($15.38)
Any Kind Check Cashing	will not reveal fees over telephone	
Bay Area Check Cashing	will not reveal fees over telephone	
C & C Check Cashing	2.15%	($13.22) chk. under $1500 3% chk. over $1500
Cal. Check Cashing Stores	1.95%	($11.99)
The Check Cashing Exchange	1.95%	($11.99)
Check Center	2.25%	($13.84)
Check Stop Check Cashing	1.95%	($11.99)
Check-X-Change	1.99%	($12.24)
Gold Star Check Cashing	1.95% + $.65	($12.64)
Golden Gate Check Cashers	1.75%	($10.76)
Greater Richmond Chk. Cash.	2%	($12.30)
M & F Check Cashing Service	2%	($12.30)
No Hassle Check Cashing	2%	($12.30)
P & M Check Cashing	2%	($12.30)
Scotty's Check Cashing	2%	($12.30)
Sobrante Check Cashing	2%	($12.30)
Supermail International	1.5%	($9.23)
TNT Check Cashing	2%	($12.30)

San Jose Fees for Cashing a Public Assistance/Payroll Check		
Name	$615 Check	
Valley Gold and Silver Exchg.	1.75%	($10.76)
B & J Check Cashing	1.99%	($12.24)
Ball of America	1.95%	($11.99)
Cash Plus	$1.9% - 2.4%	($11.69-$14.76)
Check X-Change	3%	($18.45)
Checks	1.25%	($7.70)
Chex Checks Cashing	1.95%	($11.99)
Clyde's Liquor Store	1.75%	($10.76)

Downtown Check Cashing	1.85%	($11.38)
Earl's Bottle Shop	1.65%	($10.00)
Econo Express Check Cashing	1.5%	($9.23)
Ernie's Wines & Liquor	1.5%	($9.23)
Fast Cash	1.95%	($11.99)
Fiesta Check Cashing	1.25%	($7.69)
Freddie's Liquors	1.98%	($12.18)
Goldston's Market	1.50%	($9.23)
Jack's Check Cashing	1.25%	($7.69)
Mr. Cash	1.79% + .50	($11.51)
Mail & Money Market	1.95%	($11.99)
Supermail International	1.75%	($10.76)
Tropicana Check Cashing Co.	1.85%	($11.38)
USA Chk. Cash. & Packaging	1.5%	($9.23)
United Express Check Cashing	1.67%	($10.27)

To cash a government assistance or payroll check at check-cashing outlets in San Francisco, a consumer pays an average of 2.09% of the face value of the check, or $12.85 for a $615 check.[12] To cash the same check in the Oakland/Berkeley check-cashing outlets, a consumer pays a slightly lower average of 2% of the face value of the check, or $12.30. In San Jose, the average check-cashing fee is 1.77%. The most common fee charged in these cities is 2%, or $12.30 for that sample amount. The lowest fee charged for a government assistance or payroll check is 1.25% of the face value of the check plus $.49 ($8.18 for a $615 check). The highest fee is 3%, or $18.45.

Although the fee for government assistance and payroll checks is generally the same,[13] payroll checks are subject to more scrutiny. If a payroll check is not from a major and readily recognizable company, the check-casher generally first verifies the check with the company. If a check-casher cannot ascertain that the check is a payroll check, he or she might categorize it as a personal check and either refuse to cash it or charge a higher, personal check fee.

Most check-cashing outlets surveyed over the telephone said they will not cash personal checks. C & C Check Cashing said it will cash personal checks for 5% of the face value of the check. Any Kind Check Cashing, who refused to quote its fees over telephone, charged Consumers Union's investigator 10% of the face value of a personal check.

12 See *supra* note 11.

13 All but two check-cashing outlets charge the same fee for government assistance and for payroll checks. Quick Check Cashing charges 1.5% of the face amount of a government assistance check but charges 2% of a payroll check. Any Kind Check Cashing charges 2.35% for cashing a government check but charges 3% for payroll checks.

Other Fees

In addition to the fees charged, check-cashers may also impose some or all of the following additional fees:

1. One time identification card fee, membership fee, or higher first-time fee: Most check cashers will cash checks for any consumer with a state-issued identification card. However, some check-cashers charge first-time customers membership fees or require that the first-time customers purchase an identification card issued by the check-casher. For example, Any Kind Check Cashing charges a $3 membership fee and Gold Star Check Cashing charges a $.65 identification card fee. Check-X-Change charges first time customers 3% of a check's face value and charges 2% for repeat customers. Quick Check Cashing charges first-time customers 2% and charges repeat customers 1.5% of the check's face value.

2. Minimum check-cashing fee: Some check-cashing outlets have a minimum check-cashing fee regardless of how small the check may be. C & C Check Cashing, for example, charges a $2 minimum check-cashing fee.

3. Higher fees for cashing larger checks: Although check-cashers charge a percentage of the check amount, this percentage increases in some outlets if the check exceeds a certain amount. C & C Check Cashing charges 2.15% for checks under $1,500, but charges 3% for checks over $1,500. Similarly, San Francisco Check Casher charges 1.5% for checks under $1,000 but charges 2% for checks over $1,000.

4. Long-distance telephone verification fee: Some check-cashers charge long-distance telephone fees to verify out-of-state or out-of-the-area payroll checks. Check Stop Check Cashing in San Francisco charges $2.00 for long-distance telephone calls.

Identification Requirements

Check-cashing outlets generally require one piece of identification, which can be a California driver's license or a DMV-issued state identification card. Most of the check-cashing outlets surveyed said they will not cash a check without identification because of the risk involved. Any Kind Check Cashing, however does cash government assistance check or payroll check without identification, but posted a fee of 3.5%—the statutory ceiling. With identification, its fees were 2.35% for a government assistance check and 3% for a payroll check.

Sales of Money Orders

All check-cashing outlets sell money orders. This service is largely used by customers who do not have bank checking accounts to pay bills. Many check-cashing outlets set low prices for money orders.[14] The average charge for a $100 money order is $.50, and many check-cashing outlets charged a flat fee independent of the size of the money order. This compares favorably to the $.75 charged by the U.S. Postal Service for money orders up to $700. It also compares very favorably to banks. Wells Fargo Bank charges $10 per money order for non-account holders and between $5 to $7 for account holders; Bank of America charges $7 per money order for non-account holders and $5 for account holders; First Interstate Bank charges $6 per money order for non-account holders and $4 for account holders.

Other Services

Almost all check-cashing outlets do more than just cash checks. They typically offer a range of financial and non-financial services. They sell money orders, make wire transfers, and handle telephone and utility payments. They also sell lottery tickets, cigarettes and public transportation passes, offer high-priced income tax refund loans, and in Alameda County, distribute welfare payments and food stamps.

Payday Loans

In addition to the above services, there have been reports that check-cashing outlets in Southern California make "payday" loans. These loans are not advertised and will not be revealed unless the check-casher personally knows the borrower. A check-casher makes a "payday" loan by cashing a customer's post-dated check and agreeing to hold the check until the customer's payday. Check-cashers generally offer it only to customers who have bank checking accounts.[15] This "service" amounts to an unsecured loan by an entity that is not properly licensed to make consumer loans and is not subject to consumer protection laws governing small loans.

For a check that is to be held for one to two weeks, the customer typically is charged a very high fee—20 to 35% of the amount advanced. For someone who needs to cash a post-dated $500 check, this loan can cost from $100 to $175. The annual percentage rate

14 According to Professor Caskey, check-cashers want to promote money order sales because a check-casher selling numerous money orders will not need to use as much of his own capital or tap a credit line to obtain cash for check-cashing customers. The check-casher simply hands out the cash he receives from selling the money orders. In addition, check-cashers can earn interest "float" from money order sales, because check-cashers' payments to money order companies are normally delayed. *Supra* note 5.

15 This is because the consumer obtains a "payday" loan by giving the check-casher a post-dated check from his or her checking account.

(APR) for a two-week $500 loan with this type of fee ranges from 478% to 963%. Compare this astronomical figure to the 17.6% APR banks charge for credit cards.[16]

In many states that regulate check-cashing outlets, it is illegal for check-cashers to make "payday" loans. In states that do not regulate check-cashing outlets, payday loans are often effectively illegal because the fees violate state usury laws, the check-cashing outlets fail to obtain required small-loan licenses, or fail to comply with federal regulations covering the disclosure of interest rates. California check-cashing law does not specifically prohibit payday loans. However, the California Constitution prohibits unauthorized entities or persons from charging an exorbitant rate of interest.[17] In addition, California requires licensing and imposes interest rate and fee limitations on small lenders.

III. The High Cost of Cashing Checks

Check-cashing outlets thrive by serving customers excluded from mainstream financial institutions and by tailoring their services to lower-income individuals. In exchange for their services, check-cashing outlets charge customers an average of 2% of the face value of the check. Based on this fee, a family with $15,000 annual take-home pay would pay $300 per year just to convert its paychecks into cash.[18] In addition, that family would spend an additional $36 per year to purchase money orders.[19]

A total of $336 a year on basic financial services is too much for anyone to spend, but especially for a very low-income person or family. In contrast, if that same family had a checking account, it would spend less than $100 a year on monthly fees.[20] A recent survey by a coalition of San Francisco community and consumer groups found that it is up to ten times more expensive to use check-cashing outlets in the San Francisco's Mission district than to conduct the same transactions at local banks.[21] The survey results showed that some Mission District residents are paying an average of $288 per year to use check-cashing services, when they could be paying between $30 and $108 to conduct the same transactions with a bank checking account.[22]

16 Bank Rate Monitor, American Banker, January 27, 1994.

17 Cal. Const. art. XV, §1.

18 Assuming this family pays the average 2% check-cashing fee.

19 Assuming six money order purchases per month at the average $.50 per money order.

20 Michael Hudson, *Should Regulators Check Up on Check Cashers?*, Business and Society Review, 1993, at 48.

21 The Mission Low-Cost Checking Project conducted a survey of the fees charged by banks and check-cashing outlets in San Francisco's Mission district's main business corridor. Participants in the Project include ALAS/Women's Initiative for Self Employment, California Reinvestment Committee, Consumer Action, Consumers Union, La Raza Centro Legal, Mission Economic Development Association, and The Mission Reading Clinic. The survey was conducted in November 1993.

22 *Id.*

Why do check-cashing outlets charge more to cash checks than banks charge for an account? The industry claims that check-cashing outlets run a huge risk that some cashed checks will be uncollectible because of insufficient funds or fraud. According to a news report, in general, the money lost on bad checks is less than 10% of the fees that stores charge to cash checks.[23] Moreover, most outlets cash only customers' payroll checks or government checks because they are perceived to be less risky. The few outlets that cash personal checks typically charge a high fee, as high as 10% of the check amount.

IV. Reasons People Use Check-Cashing Outlets

For the majority of Americans, banks provide essential financial services. People use banks to make deposits and withdrawals, cash checks, write checks against their accounts, and receive loans. These services carry fees that are much lower than those charged at check-cashing outlets.

Consumers may use check-cashing outlets despite the greater expense because of lack of access to bank branches, banks' policies against cashing checks for non-depositors, and the costs of or other restrictions on opening and maintaining a bank account.

Lack of Physical Access to Banks Branches

Banks have closed hundreds of branch offices during the consolidation and merger wave of the past decade. Many of these banks closed "unprofitable branches," which were often in low-income neighborhoods.[24] As a result, bank branches in poor neighborhoods have become even more scarce in the 1990s. There are many reports on the lack of bank branches in low-income neighborhoods, and the following are just a few examples of the problem.

A survey in South Central Los Angeles, a community with 400,000 residents who are predominantly low-income and people of color, found that the area had only 19 bank branches, but 133 check-cashing outlets.[25] The ratio of check-cashing outlets to bank branches in central Los Angeles is 7-to-1.[26]

In Oakland, on East 14th Street, one of the city's major thoroughfares, there are at least 12 check-cashing outlets in 90 blocks, but only two bank branches.[27]

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23 *Cashing In*, Los Angeles Times, Jan. 17, 1993.

24 *Check Cashers Profiting From Gap Left by Banks*, The New York Times, December 1, 1992.

25 *Supra* note 9.

26 Vivian Marino, *Cashing In on Convenience, or Poverty?*, The San Francisco Examiner, July 24, 1993.

27 Matt Richtel, *Check Cashers Becoming Poor Man's Bank*, The Oakland Tribune, March 15, 1990.

A news report compared bank branches in low-income and middle-income neighborhoods and reported four banks and no check-cashing outlets in the middle-income Rockridge area. By contrast, the lower-income Fruitvale area had two banks, and six check-cashing outlets.[28]

In West Oakland, 48,000 residents make do without a single branch bank, while in the middle- and upper-income Oakland hills, there were 31 bank branches, approximately one for every 2,345 people.[29]

Because there are few or no bank branches in low-income neighborhoods, residents must either travel some distance to reach a branch in a more affluent neighborhood, or patronize a nearby check-cashing outlet. For these consumers, conducting financial transactions through banks is not an option readily available to them, even if they have enough money to open and maintain a bank account. As a result, use of check-cashing outlets instead of banks is six times as great among low-income consumers as among middle-income consumers (12% versus 2%).[30]

Cost of Opening and Maintaining a Bank Account

One reason millions of Americans do not have bank accounts may be the cost of opening and maintaining a bank account. To be a bank account holder, banks require that the consumer meet minimum opening balance requirements,[31] and maintain a minimum amount each month in the account or pay monthly fees.[32]

A national study by Consumer Federation of America and U.S. Public Interest Research Group found that it costs $136.30 per year to maintain a basic banking account, including maintenance fees, per check fees, ATM fees, and bounced-check fees.[33] The study also found that the national average minimum opening balance requirement is $50.22.[34]

For those on public assistance and who live paycheck-to-paycheck, the cost of maintaining a bank account may be too high. Many simply cannot afford to keep the required amount in the account or pay the monthly fees. Furthermore, if a consumer fails to maintain adequate balance in the account, banks charge high bounced-check fees. According to a

28 Judy Tachibana, *The Poor Pay More for Basics of Life*, The Sacramento Bee, Oct. 16, 1993.

29 *The Price We Pay*, The Daily Review, 1991.

30 *Supra* note 9, at 10.

31 The Mission Low-Cost Checking Project reports an opening balance required by six of the nine banks in the Mission to be $100.

32 The Mission Low-Cost Checking Project reports that banks in the Mission charges monthly fees that ranges from $2.50 to $9.

33 U.S. PIRG/CFA National Bank Fee Survey, *Crushing Consumers: Rising Bank Fee Burden*, June 1993.

34 These basic low-cost accounts are not offered by all banks. Even those banks that have them have been criticized for failing to market these accounts to potential low-income customers.

PIRG/CFA report, average bounced-check fees nationally increased 21%, from $15.11 in 1990 to $18.35 in 1993.[35]

It should be noted, however, that although banks may charge high fees, maintaining a bank account would be significantly less costly than regularly using a check-cashing outlet.

Other Reported Factors

Banks' Burdensome Identification Requirements

To open a bank account, banks generally require two pieces of identification, plus a social security number. The first piece of identification banks generally ask for is either a California driver's license or a DMV-issued California state identification card. The second piece of identification frequently requested is a major credit card.

The identification requirement is one more barrier for those who may not have the second piece of identification, and of course is an absolute barrier for those who do not have a state-issued identification card. Since March 1, 1994, California law prohibits the Department of Motor Vehicles from issuing a driver's license or a state identification card to any person who cannot establish proof that his or her presence in the U.S. is authorized by federal law.[36] The California Legislature has made it effectively impossible for the undocumented population to open bank accounts.

Check-cashing outlets, on the other hand, require only one piece of identification and are more flexible about what qualifies as identification. Generally, check-cashers will accept employer identification cards or foreign country passports.

Banks are Seen as Unfriendly and Insensitive

Low-income and minority consumers have long reported that banks are insensitive to their needs and are unfriendly toward them. While check-cashing outlets attempt to attract low-income consumers by tailoring their products to suit the consumer's needs, banks have not done so. For example, check-cashing outlets in the San Francisco's Mission district have many bilingual employees, they sell bus passes, and have international money wire services with much lower minimum dollar requirements than local banks.

Check-cashing outlets are also more convenient for some consumers. They are open longer hours than banks, and on both Saturdays and Sundays. As indicated above, check-cashing outlets are often located in low-income neighborhoods, making them more accessible than banks.

35 *Supra* note 33.

36 Cal. Veh. Code §12801.5 (West 1985 & Supp. 1994).

Banks Not Interested in Cashing Checks

Most banks require a consumer to maintain a deposit account in order to cash a check, even government checks with a negligible default risk. Those without bank accounts generally cannot cash payroll, government or personal checks at banks, unless the checks are drawn on an account at that bank.[37] Banks generally are more interested in those who can afford to maintain an account than in those who only want to cash checks on a transaction-by-transaction basis. While this is true for most banks, Union Bank is experimenting with adding check-cashing to its banking business.[38]

For these reasons, millions of consumers turn to check-cashing outlets for their financial services needs. Unfortunately, these consumers do not receive some benefits that those with bank accounts do. Conducting financial transactions through banks provides consumers with financial records and proof of payment of rent, security deposit payments, and other payments. In addition, those without bank accounts are denied the opportunity to establish the banking relationships that are often necessary to qualify for traditional forms of credit.

Keeping money in a bank account also keeps it safe from fire, theft or loss. The consumer with a bank account is also personally safer simply because he or she is less likely to need to carry around large amounts of cash. A homeless man found a way around this dilemma by purchasing a money order made payable to himself for the full amount of a check. Each time he needed money he cashed the money order at a check-cashing outlet for a fee of 2% of the face value. He then took out whatever cash he needed, and then purchased another money order payable to himself with the leftover balance. In this way, he carried

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37 Bank of America, however, will cash checks for non-account holders for a flat fee of $5.00. However, it requires two pieces of identification, one of which is a California Driver's License or DMV-issued identification card.

38 Union Bank has recently put check-cashing windows at two of its existing full-service branches. After paying a $7.50 annual membership fee, customers may cash checks for 1% of the check's value, and receive up to 72 money orders at no charge. Non-members pay 1.5%. This is serious competition to local check-cashers. Union Bank now has over 1,100 check-cashing customers and is gaining 10 to 12 new ones per day, according to Yolanda Brown, the bank's manager for check-cashing. Matt Richtel, *Banking on Check Cashing*, The Oakland Tribune, Sept. 19,1993, at B-11.

This is a controversial move. On the one hand, this increases bank presence in poor neighborhood and provides consumers with cheaper check-cashing services. On the other hand, providing only check-cashing, not full branch services, institutionalizes a two-tiered banking system—one for the rich, one for the poor. Not having access to full branch services deprives certain consumers of the opportunity to establish the banking relationships that are often necessary to qualify for traditional forms of credit and bank loans.

Some consumer advocates have criticized the Union Bank foray into the check-cashing business, arguing that it further stratifies our society because the poor need banks, not check-cashers. Others counter that bank competition could nonetheless force down the price of check-cashing services. Consumer advocates have consistently urged Union Bank to seek to introduce and move consumers who use its check-cashing service into traditional banking accounts.

around money orders rather than cash. He avoided being robbed, but at an exorbitant price because each time he cashed a money order he paid 2% of the value of the check.

V. Current California Check-Cashing Law

Prior to 1981, California law limited check-cashing fees to the greater of $1 or 1% of the face value of the check.[39] In 1981, the California legislature repealed this limit.[40] Until 1983, check-cashers also were required to register with the Department of Corporations.[41] This registration requirement was also repealed.[42]

In 1992, the Legislature reinstated the registration requirement[43] and a fee limit, but one far higher then the earlier law.[44] Check-cashers are allowed to charge up to the greater of $3, or 3% of the face amount of the check (if a customer has identification), or 3.5% (if a customer has no identification).[45] These limits apply only to government and payroll checks. The law places no ceiling on fees for cashing other kinds of checks.

Currently, check-cashers must register and obtain a permit with the Department of Justice.[46] In addition, they must post fee schedules for services, a list of valid identification, and they must provide a receipt for each transaction. They may not charge more than $10 for first time identification or more than $5 for subsequent identification. Charging more than the fee schedule posted is an unfair business practice, and a willful violation of the check-cashing law is a misdemeanor.[47]

VI. Recommendations

It is too expensive for consumers to regularly cash checks at check-cashing outlets. There are steps consumers, the Legislature and administrative agencies, and banks can take to address this problem. Consumers must be knowledgeable about the long-term costs of using check-cashing outlets, the costs of maintaining bank accounts, where to cash certain checks free of charge, and how to open, keep and use a low-cost checking account. The

39 Cal. Fin. Code §12308 (repealed 1981).

40 Stats. 1981, ch. 596.

41 Cal. Fin. Code §12000 *et seq.* (repealed 1983).

42 Stats. 1983, ch. 660.

43 Cal. Civ. Code §1789.37 (West 1985 & Supp. 1994).

44 Cal. Civ. Code §1789.35 (West 1985 & Supp. 1994).

45 *Id.*

46 Cal. Civ. Code §1789.37 (West 1985 & Supp. 1994).

47 The laws governing check cashers can be found in Cal. Civ. Code Title 1.6F, Section 1789.30 *et. seq.*

Legislature should require lower check-cashing outlet fees, and banks should increase their services and outreach in low-income communities.

What Consumers Should Do

1. **Carefully compare long-term costs of using check-cashing outlets versus maintaining a bank account.**

2. **If a consumer decides to open a bank account, he or she should:**
   - Inquire about a low-cost checking account;
   - Inquire whether the bank offers any fee-waiver account; and
   - Inform bank personnel of any special circumstance that might qualify the consumer for a low-cost account or a fee-waiver account. Special circumstances may include student status, senior citizen status, government aid recipient, or low-income.

3. **Go directly to bank where check was issued—free service.**
   - Most banks will cash at no charge all checks that were issued by account holders of that bank. If it refuses, go to the branch of the bank upon which the check is drawn—it is obligated to cash the check without charge.
   - San Francisco City Hall will cash any check issued by the city of San Francisco at no charge. The City issues many checks including government assistance, disability, retirement, and payroll checks. These checks may be cashed weekdays between 8:30 a.m. and 4 p.m. in Room 110 at 400 Van Ness Street.

What the Legislature and Administrative Agencies Should Do

1. The Legislature should lower the check-cashing fee ceiling. The existing ceiling of 3% with identification is far above the competitive market rate of 2%. These rates are still too high. The Legislature should reinstate the 1% rate ceiling. In addition, the new ceiling should be rigorously enforced.

2. Consumers should be provided convenient ways to file complaints. The Legislature should require check-cashing outlets to post a toll-free consumer complaint telephone number. The state then must devote resources to receive, record, and investigate complaints. Any check-cashing outlet that is the subject of numerous complaints should be closely scrutinized.

3. The Legislature should require check-cashing outlets to provide consumers with detailed receipts. Consumers may not know they are being overcharged and consequently will not file a complaint if the receipt does not detail fees deducted. The receipts should detail the amount of each check cashed, the percentage and amount charged, and the remaining cash balance given to the consumer.

4. The Department of Corporations, which administers the Small Loan Law, should stop check-cashing outlets from making illegal "payday" loans by advancing money on a post-dated checks. Check-cashers who make these loans are engaging in the small loan business without proper licenses to do so. Consumers who receive these loans are being charged outrageous fees and have no protection against this abusive practice.

Banks Must Serve Low-Income Persons and Communities

Under the Community Reinvestment Act, banks are required to serve the needs of the entire community where they are located. Over the past decade, banks have pulled out of inner cities, forcing residents to rely on check-cashing outlets. Check-cashing outlets are able to charge high fees because many consumers simply have no other choice.

1. Banks should operate more full-service branches in low-income neighborhoods. Not having physical access to bank branches probably discourages a significant percentage of low-income or minority families from maintaining bank accounts. A bank branch presence in the neighborhood would give these residents the option of maintaining a bank account without having to travel great distances.

2. Banks should offer affordable low-cost checking accounts. The account should require no more than $25 opening deposit, with no minimum balance requirement. Monthly fees should not exceed $2, and there should be no limitations on check writing and other transactions.[48]

3. Banks should be more flexible in their identification requirements. Banks' identification requirements may be onerous for some consumers, especially the homeless, low-income and some minority consumers. Banks' lists of what qualifies as primary and secondary identification should be more extensive. For example, primary identification should also include green cards and government identification cards, such as AFDC or Medicare cards. Secondary identification should also include bills with the applicant's printed name and address, employer or government-issued identifications, rental or mortgage agreements, and printed letters from an employer or social service provider.

48 This is the affordable low-cost standard set forth by the California Reinvestment Committee.

4. The federal banking regulators should require that all federally-insured banks cash government checks. Check-cashing is a much needed service in low-income neighborhoods, and banks should be required to provide this service.

Conclusion

Consumers who use check-cashing outlets spend a much larger portion of their incomes on financial transactions than those who use banks. Unfortunately, these consumers are the ones least able to afford to spend a lot of money on financial services. These are also the consumers who have the least access to the banking institutions that would enable them to spend less on basic financial transactions. The legislature, banks, and consumers themselves must take steps to solve this problem.

Consumers Union
Publisher of Consumer Reports

October 19, 1994

The Honorable Stephen Neal
Chairman
Subcommittee on Financial Institutions
House Banking Committee
Washington, DC 20515-6050

Dear Chairman Neal:

As promised during your hearing on access to basic banking services by lower income consumers, I am submitting data for the record on the costs of complying with the liability rules of Regulation E during the first year of the electronic benefit transfer (EBT) pilot in Houston. I think the data indicates clearly that the claims costs in that pilot are minimal.

The attached one-page summary of the Houston experience also summarizes the faulty methodology the Texas Comptroller's office used in deriving inflated and widely circulated cost estimates. The summary, and the supporting attachment, indicate that the Committee and subcommittee should closely analyze any cost claims made by the states.

Thank you for the opportunity to testify.

Yours truly,

Michelle Meier
Counsel for Government Affairs

Attachments:

1-page summary of Houston pilot experience and Comptroller Sharp analysis

Pertinent pages from the Citibank report on the Houston pilot

Internal memo to Texas Comptroller Sharp from Doug Freer

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REG E COST INFORMATION

1. The Unauthorized Claim Experience of the Houston EBT Pilot of the Social Security Administration: The Houston pilot, involving the federally administered Social Security Administration (SSA) and Supplemental Security Income (SSI) programs, complied with Regulation E in most respects. The data on the costs of Reg. E's liability rules during the first 12 months of the pilot program (April 1, 1992 to March 31, 1993) indicate that the costs are minimal:

- Only 11 claims of "unauthorized use" were paid during the first 12 months of the pilot program. **These claims totaled only $3,134 and averaged only $285 each.**

- By contrast, almost ten million dollars ($9,632,878) were transferred under the program to more than 5,000 recipients. These transfers involved almost 96,200 individual transactions.

- In other words, only about 1 in 9,000 transactions resulted in paid claims, and these claims involved only 3/100 of 1 percent (.03%) of all funds transferred.

2. Texas Comptroller Sharp's Numbers: According to a memo circulated by Mr. Sharp's office (attached), Texas will incur additional costs of $55 million annually if Reg E applies to EBT. The attached memo describes the methodology used to arrive at that number. That methodology is grossly flawed and results in a grossly inflated cost estimate.

The biggest flaw is the assumption that of all cards lost by recipients each year, almost each and every one (90 percent) will be used by whomever finds it to steal funds from the recipient's account. Obviously only a fraction of all lost cards will be used to engage in criminal activity since, among other reasons, the card itself is useless without its associated PIN number.

The Sharp numbers are a poor but sensational substitute for real numbers, which the states have never produced. The best numbers we have are from the SSA/SSI pilot, which show only minimal costs associated with the regulations.

MEMO

TO: JOHN SHARP 23 December 1993

FROM: Doug Freer VIA: Mike Reissig MR

SUBJECT: Regulation E applied to EBT

If Regulation E is applied to EBT programs, Texas can be expected to incur annual additional costs of approximately $55 million. This forecast employs the "cost model" developed by the federal-state-local task force on EBT. The estimated losses include $36 million for restoration of food stamp benefits, $8 million for restoration of AFDC benefits and $11 million for administrative costs.

As an example of how the "cost model" works, the following methodology was used to determine the annual loss of $36 million from lost or stolen food stamp cards.

According to the Department of Human Services (DHS), there were a total of 10,838,400 food stamp cases in 1992. The total dollar volume of these cases was $2.075 billion for an average of $191 per case. Using standards for lost or stolen cards developed by Citicorp, DHS, and the state of Maryland who has an EBT program in place, it was determined that 3 percent of the cards would be reported lost or stolen. This produces a potential gross liability of $62.3 million.

We estimated that 90 percent of a card's value would remain when the card was lost or stolen. Liability was also reduced by assuming that 90 percent of the claims would be found valid. Final gross liability to be shared by the cardholder and the state would be $50.4 million. Assuming a $50 copayment, the state's share of liability would be $35.8 million.

The same methodology was used to estimate annual benefit restoration losses of $8.2 million for AFDC.

Data from the federal EBT pilot program in Houston, indicate that administrative costs associated with investigating claims to eliminate fraudulent requests were over 1/3 of the costs of restoring benefits. By assuming greater efficiency of a statewide program, we estimated administrative costs to be 25% of restored benefits paid. With total benefits paid estimated at $44 million ($36 million food stamps and $8 million AFDC), administrative costs would run $11 million per year.

The Texas Department of Human Services used the same "cost model" employed here and came up with an annual incremental cost of $33 million. DHS made no provision for administrative costs. The DHS methodology assumed that 2 percent of cards would be reported lost or stolen. Considering trends in the credit card industry, and Maryland's experience with an EBT program in place for over 4 years, we believe that 3 percent is a more prudent assumption.

cc: Billy Hamilton Tom Duffy Greg Hartman Ray Bonilla

DIRECT PAYMENT CARD

MID POINT EVALUATION
(APRIL 1, 1992 - MARCH 31, 1993)
YEAR 1, HOUSTON, TX

PREPARED FOR THE FINANCIAL MANAGEMENT
SERVICE BY CITIBANK EBT SERVICES

II.A.1 Client Environment

The target client/recipient environment for the Direct Payment Card in its first year of operations were recipients of Social Security (SSA), Supplemental Security Income (SSI), Office of Personnel Management (OPM) and Railroad Retirement (RRB) benefits. The plan was to emphasize the program to recipients without bank accounts to prevent cannibalization of the Direct Deposit product. Nationally, 50% of SSA, 18% of SSI, and over 50% of OPM and RRB recipients enroll in direct deposit. Recently, participation levels in Direct Deposit have slowed to approximately 2%. EBT provides a way to increase cost effective, high service electronic delivery to benefit recipients. In the first year alone, DPC enrolled over 6% of the SSI population.

The Direct Payment Card (DPC) program has eliminated several hardships for the recipient population through its basic services. Some of these include:

1) Receiving the check (Convenience)
2) Cashing the check (Convenience, Cost)
3) Carrying too much cash (Safety)

1) Receiving the check - Many recipients rely on their benefits to survive. No longer do they have to wait for the check or worry about it being lost or stolen. The DPC program utilizes the Automated Clearing House system to move the funds electronically. Except for the first month of operation where the Routing Number (RTN) was not properly assigned, the recipient's funds have always been available several hours before normal check delivery. To date, $9,632,878.07 in benefits have been delivered via the Direct Payment Card system to Citibank from the Federal agencies. Of this total, $1,434,735.38 was received in March alone.

II.B Transaction Statistics

II.B.1 Summarization

Direct Payment Card (DPC) recipients are able to withdraw their Federal benefits either through an ATM machine or Point of Sale (POS) device. The statements and statistics below represent data from both the PULSE and Citishare network switches.

In March, 1993, DPC cardholders attempted 16,659 transactions, of which 13,000 were approved and processed. The average DPC cardholder performed 3 ATM transactions, 1 POS transaction, and 1 rejected transaction. Point of Sale activity matched its highest percentage all year with 25% of all authorized transactions occurring at a POS retail site. Of the rejected transactions in March, 78.9% were ATM related and 21.1% were POS. Fewer rejected transactions occur at the POS sites due to the availability of on-site help in the form of a store clerk.

For the first year of DPC operations, cardholders attempted 121,289 transactions of which 96,225 (79%) were approved.

It must be noted that although the authorized transaction rate of 79% is below the PULSE norm of 88%-90%, the Customer Service Level of 90.07% was more in line with the PULSE standard of 93% - 95%. The Customer Service Level allows for one rejected transaction if a valid transaction immediately follows (e.g. an invalid PIN attempt that is followed by a valid transaction is considered as only an authorized transaction for this particular service level).

VII.A. **Current REG E Experience**

After twelve months of operation involving 24,405 claim/months (defined as delivering 1 month of live DPC benefit access for one claim), there have been 72 claims for non-receipt of funds and 33 instances of recipients claiming unauthorized usage or money missing from their account.

VII.A.1. **Non-Receipt of Funds**

Non-Receipt of funds is typically due to a terminal (ATM or POS) malfunction or a network problem. Usually, a discrepancy exists because the recipient's record has been debited for the transaction, but the recipient did not receive their funds.

To make a claim, the recipient needs to notify the DPC project office or 800 helpline of the occurrence to initiate the investigation. The claim must be submitted in writing in ten days or the investigation can take up to 45 days to complete. A Financial Institution may also initiate an investigation claiming that a recipient received funds that were not debited. Upon receipt of a claim, the project office notifies either the acquiring bank for resolution (i.e. were they in balance and associated documentation) or the recipient for proof of the transaction. If all timing considerations are met, the project office can take up to 10 days to resolve the claim. Of the 72 claims submitted for non-receipt, 43 or 60% were customer initiated and 29 or 40% were requested by a Financial Institution.

The chart below summarizes the disposition of our program to date REG E claim activity for nonreceipt of funds (Refer to the monthly table of nonreceipt funds within this section of this document for more details):

	(1) # Claims	Value		*Per C/M
		(2) Net Total	Average	
Honored Claims	58	$3,722.71	$64.18	$.152
Rejected Claims	14	$1,077.29	$76.95	$.044
TOTAL	72	$4,800.00	$66.67	$.196

1 - The number of claims represents both recipient and financial institution claims registered.

2 - This net total is comprised of both credits and debit claims registered.

In general, ATM related claims were more predominant with 86% of the total non-receipt claims with only 14% of these claims being POS related. Only 14, or 19% of the claims were rejected. Two recipients were given "Provisional Credits" of their funds to allow Citibank sufficient time to investigate the validity of the claim. These credits place the funds in the recipients account during an on-going investigation with the provision that the funds will be removed (debited) should the investigation demonstrate that the funds were not entitled to the recipient.

VII.A.2. Unauthorized Usage

Unauthorized usage is defined as an EFT transaction from a customer's account without actual customer authority to initiate the transfer and from which the customer receives no benefit. This does not include:

1. Any transaction by a person who was furnished with the customer's card and/or PIN by the customer.

2. Any transaction with fraudulent intent initiated by the client or any person acting in accord with the client.

3. Any transaction initiated by Citibank or its employees.

The chart below summarizes the disposition of our program to date REG E claim activity for unauthorized claims (Refer to the detail table of unauthorized usage in the exhibit section of this document for more details):

	# Claims	Value		*Per C/M
		Total	Average	
Honored Claims	11	$3,134.41	$284.96	$.128
Rejected Claims	22	$8,405.36	$382.06	$.344
TOTAL	33	$11,539.77	$349.69	$.472

*Per claim/month on the system.

* Recipients receiving SSI benefits submitted 26 claims or 79% of the total. SSA recipients submitted 5 claims or 15% of the total while recipients who received both SSA and SSI benefits submitted 2 claims or 6%. There were no claims submitted by an OPM, RRB or VA recipient.

Of the 33 claims for unauthorized usage, 22 or 67% were rejected for the following reasons:

Reason	# of Claims	Claim %
Gave card/PIN to Relative/Friend	7	32%
Late Notification	5	23%
Fraudulent Intent	4	*18%
Under $50	3	13%
Never Provided Documentation	2	9%
Other	1	5%
Total	22	100%

* - Recipients engaged in suspicious activity.

Discussions with our fraud and security department officer assigned to EBT in general and the Direct Payment Card in particular have helped clarify issues facing the program and their potential solution. Primary among issues of concern is the prediction that the rate of invalid claim submission will tend to increase as people become more familiar with the service. Solutions to the risk faced include more rigorous claim documentation, including requiring a police report be submitted concerning the particular occurrence.

Statement of

JEFFREY SILVERMAN

President
and
Chief Executive Officer

M.S. Management, Inc.
Northbrook, Illinois

on behalf of the

NATIONAL CHECK CASHERS ASSOCIATION, INC

before the

U.S. HOUSE OF REPRESENTATIVES

COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS

SUBCOMMITTEE ON

FINANCIAL INSTITUTIONS SUPERVISION, REGULATION AND DEPOSIT INSURANCE

Regarding

Access to Financial Services

Washington, D. C.

August 11, 1994

Headquarters:
One Mack Centre Drive, Mack Centre II, Paramus, New Jersey 07652 Ph: (201)-777-9870 Fax: (201) 773-6983
1023 15th Street, N.W., Seventh Floor. Washington, D.C., 20005

Mr. Chairman, my name is Jeffrey Silverman. I am the President and Chief Executive Officer of M.S. Management, Inc., headquartered in Northbrook, Illinois. We are a privately owned company which provides a broad array of financial services, including check cashing, to local communities in three states.

I am testifying today on behalf of the National Check Cashers Association (NaCCA), the professional organization that represents more than 2,400 individual check cashing centers in 35 states, and is the industry's leading voice on legislative, regulatory, and business issues. My company is one of the founding members of the association, and I am currently a Vice President and member of the Board of Directors and Executive Committee.

We are pleased to be able to provide some information to the Subcommittee regarding financial services in minority and low-income communities. My firm serves many such neighborhoods, and I welcome the opportunity to discuss the services we provide to residents and to suggest some cutting edge prospects for new services which have exciting potential.

At the outset, it is important to understand that our customers choose to use our services for a variety of reasons. These customers seek cash payment services that are usually not provided to most bank and non-bank customers. They also seek ancillary services which are more conducive to non-bank financial

institutions.

Convenience

A survey conducted by the Roper Organization for the Consumer Bankers Association found that two-thirds of our customers already have bank accounts. These customers use our services largely as a matter of convenience. As a rule, our stores have longer hours than banks, conduct faster transactions, and are less crowded.

Indeed, we consider ourselves the 7-11's of financial services.

In addition, we specialize in serving customers seeking to cash checks, purchase money orders, or send wire transfers, and make a special effort to welcome them.

Many of my company's stores are located close to banks, yet we are quite successful in attracting customers who are seeking our services in these areas. In fact, a substantial number of check cashers are moving into suburban communities where there is no shortage of banks. Earlier this year, members of the Subcommittee staff toured one such store in Falls Church, Virginia.

Furthermore, a study entitled the "Economic Profile of the Check Cashers Industry", prepared by the State University of New York at Albany's Graduate school of business found no statistical relationship between branch bank closings and the opening of a check cashing store.

Access to funds

Perhaps the most important difference between depository institutions and check cashers is that we cash checks without requiring funds on deposit. For a low or moderate income individual, especially the one-third of our customers who don't have bank accounts, it is important to be able to get access to cash immediately in order to pay the rent, buy groceries, or pay a utility bill. Those are all the financial services they need.

For the individual living from paycheck to paycheck, it is difficult, if not impossible, to accumulate the deposits necessary to allow a bank to cash a paycheck. Legislative proposals for low-cost banking that I've seen do not--and cannot--provide funds to customers not in a position to save money.

The Unbanked Population

Who are the people without a bank accounts? Professor John P. Casskey of Swarthmore College concluded in a study published in the Eastern Economic Journal that the decline in account ownership is a reflection of the deterioration in the economic situation of low-income households. He points out that the average (mean) real income of families in the lowest 20 percent of income fell by nearly 10 percent between 1979 and 1991.

A 1989 survey of the University of Michigan's Survey Research Center and sponsored by the Federal Reserve Board found that more than two-thirds of those with incomes below $11,970 said they either don't have sufficient money or don't write enough checks to make a bank account worthwhile.

Only 5.4 percent of those surveyed stated that bank service charges are too high, and only 4.3 percent stated that minimum balances are too high.

Thus, the evidence shows that no matter whether banks are available or if they lower fees, there will always be a segment of the population that neither needs nor wants to use bank accounts for cash payment services. And, the decision to use alternative financial service providers is a reasonable one.

Check cashers have developed a network of facilities which provides convenient and professional financial services for this unbanked population.

Financial Services Centers

Over the years, check cashers have introduced a range of financial services to complement basic check cashing. While the cashing of checks -- including payroll checks, government checks, personal checks and insurance drafts -- remains the check cashing

center's primary activity, other financial services are available at check cashing facilities. These include the sale of money orders, money wire transfers, welfare benefit and food stamp distribution, and public transportation fare and token sales.

Check cashers are also leaders in the electronic distribution of government benefits (Electronic Benefit Transfer -- EBT) and electronic collection of bill payments.

The Check Cashing Business

Your staff requested that I discuss how check cashers operate our businesses. I'll summarize how most check cashers conduct their businesses. But it is necessary to understand that while check cashers all serve the public by converting checks into currency, they are not all alike, as they provide financial services appropriate for local conditions.

The bread and butter of our industry is, of course, the cashing of checks for a modest fee, dependent upon market conditions and the cost of doing business. We use various methods of verification to make certain the customer actually is the payee listed on the instrument, including examining identification or contacting the maker of the check. For most check cashers, the most common check cashed is a payroll check, and in most instances our tellers are aware of the neighborhood businesses.

Like most businesses, we attempt to develop good relationships with our customers so they will continue to return to our stores. We maintain records of whose checks we cash, and encourage them to return. Obviously, subsequent transactions are quicker and more efficient both for the check casher and the customer. Some check cashers will issue an identification card to customers on their first visit.

After cashing a payroll check, many customers choose to purchase money orders or pay utility bills in our stores. Many check cashers charge very low fees for money orders compared to other agents of money order issuers.

Check cashing fees are set based on regulatory and market conditions. Our industry is highly competitive, so it is difficult and rare for a check casher to charge fees significantly higher than the norm. In previous appearances before this Subcommittee I've provided additional information about how our fees are set, and I'd be pleased to elaborate should you have any additional questions this morning.

Innovative financial services

As Congress and the states endeavor to assure access to financial services for low-income communities, we in the check cashing industry stand ready to work with you. For instance, there

have been some innovative proposals made recently about how the extensive check cashing network, which is already in place and grew out of a need for it could be extended to further the goal of providing services to the communities which may need more than check cashing payment services.

In testimony before the Subcommittee on Consumer Credit and Insurance earlier this year, the Office of the New York City Public Advocate proposed that the check cashing network itself could be used to deliver some traditional banking services in cooperation with depository institutions. Such services could include receiving deposits from check cashing customers, with check cashers acting as agents or limited branches of banks. We understand such a proposal is being considered for submission in New York.

Other proposals have been made at the state level to permit some banks to pool resources to reimburse payment of check cashing fees to check cashers on government benefits checks in exchange for Community Reinvestment Act credit. These concepts are in their infancy, but could offer some intriguing possibilities for expanding services to communities in need.
The idea is to use and expand the existing financial services delivery system which check cashers have created to provide additional, desirable financial services in targeted areas of proven need.

Delivery of government benefits

The check cashing industry in several states is already in the forefront of the delivery of government benefits, including SSI, Aid to Families with Dependent Children, Food Stamps, and state aid. In some states, including my home of Illinois, we've been helping to get benefits to the people for years .

As the use of electronic funds transfer for delivery of benefits develops, we stand ready to work with Congress, the Administration, and the states to continue to help deliver these critical benefits to people as well as other financial services where the need is established.

Again, Mr. Chairman, I thank you for inviting me to appear today. I'd be pleased to respond to any questions.

HON. LUCILLE ROYBAL-ALLARD

TAKING IT TO THE BANK:

Poverty, Race, and Credit in Los Angeles

A Report to the City of Los Angeles

September 1991

Prepared by the Western Center on Law and Poverty
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TAKING IT TO THE BANK:
Poverty, Race, and Credit in Los Angeles

Executive Summary and Overview

A. EXECUTIVE SUMMARY

The City of Los Angeles commissioned this report on the role of financial institutions in lower income and minority communities, seeking ways to encourage these institutions to be more socially responsible. In particular, at the time the study was commissioned, Los Angeles was considering a linked deposit program, under which the City would deposit its funds with financial institutions providing better financial services to low income and minority communities.

Financial institutions are often viewed as a repository for the wealth of the rich, particularly in the wake of the "go-go" financial markets of the 1980s. But the behavior of financial institutions also plays a crucial role in the health of all neighborhoods and communities within their market areas.

Credit is less available and bank branches and services are scarcer in neighborhoods with many low and moderate income residents than in upper income neighborhoods; and credit is less available and bank branches are scarcer in neighborhoods with many minority residents. The lives of working people, small business owners, and the poor in such underserved neighborhoods are all profoundly affected. Low-income residents face onerous charges for financial transactions and heightened personal insecurity because of the absence of bank branches and of lifeline banking services. Moderate and middle-income residents are denied a fair chance to own their own homes or their own businesses. Housing and business development is stymied because of severe financing constraints.

In preparing this report, we first reviewed available information on the magnitude of the housing crisis in Los Angeles, and examined previous studies of financial institution

toward low income and minority residents in the areas they serve. Federal law requires that banks and savings and loan associations (thrifts) assess and respond to the credit needs of all the communities within their market areas.[1] In addition, financial institutions whose lending practices discriminate against African-American, Latino, Asian Pacific, or other minority residents are breaking the law.

We looked at the relationship between financial institutions and the City's lower income and minority residents from several perspectives.[2] First, we examined the level of residential lending over the 1981-89 period across the City of Los Angeles. Given the legal obligations of financial institutions to serve lower income and minority neighborhoods, we examined in particular whether the level of residential lending varied according to the income level or minority status of residents.[3] Our findings at this stage were disturbing: *banks and savings and loan associations make fewer and smaller residential loans in lower income and minority neighborhoods than in the City at large.* This finding suggested that the needs of residents in lower income and minority areas for home purchase and repair were not being met.

However, it seemed possible, and even likely, that the pattern of lower lending in minority neighborhoods could be explained simply by poverty—that is, lenders do not make loans in minority neighborhoods because residents there are too poor to meet reasonable

[1] The term "thrift" is used as a synonym for "savings and loan association" throughout this report. The terms "bank" and "banking" are sometimes used generically to refer to depository financial institutions and their financial practices.

[2] The term "lower income" is used throughout this report to describe low and moderate income areas of the City. Most often, it denotes the approximately 45% of the census tracts in the City which have low median incomes. The term "minority community" or "minority neighborhood" is used to denote areas in which a large proportion of residents are African-American, Latino, and/or Asian-Pacific. These terms are given more precise definitions as necessary in various parts of the report.

[3] We use the terms "community," "neighborhood," and "area." In fact, the geographic aspects of the analysis in this report have been conducted using census tracts. Census tracts are, with rare exceptions, much smaller than the neighborhood or community designations used in everyday parlance. However, one of the principal findings of our study is that census tracts within neighborhoods almost invariably fall into the same statistical categories, so these terms are relatively accurate.

creditworthiness requirements. Sadly, upon examination we found that this was not the case. We discovered that [redacted]

We then turned to three other aspects of financial institutions' behavior in the City of Los Angeles: their provision of banking services; their role in facilitating economic development, particularly for small businesses; and their role in financing the development of housing that is affordable for lower income residents.

Investigating banking services, we learned that [redacted]. Further, some bank practices are especially onerous for the poor—[redacted]

Our study of economic development found financial institutions reluctant to provide some kinds of financing for small business, particularly in disadvantaged neighborhoods. We also uncovered problems in the financing of rental housing that lower income people could afford—few lenders were willing to provide predevelopment or permanent financing for multifamily housing development. In sum, *financial institutions do not provide adequate banking services, economic development lending, or affordable-housing financing for lower income and minority communities.*

After analyzing financial institution behavior, we developed some suggestions for ranking financial institutions on their success at meeting the credit and banking service needs of lower income and minority neighborhoods. These suggestions encompasses two distinct elements: first, lenders' performance in residential lending, relative to that of similiar institutions; second, lenders' responsiveness in banking services, economic development, and affordable housing development.

This study evaluates financial institutions' performance in residential lending, but

does not attempt to measure their performance in the other three areas. This partial implementation is due to limitations in our data on Los Angeles lenders. With few exceptions, all commercial banks, thrifts, and credit unions submit detailed data on their residential lending to the federal government annually. Thus, all 220 institutions submitting residential lending data to the federal government were ranked on their residential lending to lower income and minority communities. By contrast, data on the second set of topics are not systematically collected; for this study, we had only partial responses on lenders' provision of banking services, economic development lending, or lending for affordable housing construction.

This report concludes with a series of recommendations for the City government of Los Angeles. The City is encouraged to take the lead in encouraging financial institutions to meet the banking and credit needs of *all* City residents. Twelve recommendations are made about the steps the City can take in program development, oversight, and advocacy.

B. MAJOR FINDINGS ON RESIDENTIAL LENDING

1. The Housing Crisis and Residential Lending Needs

The City's housing crisis is visible to anyone who walks the streets, reads the paper, or looks for a place to live. More than 25% of Los Angeles' families spend more than half their incomes for rent. For African- Americans and Latinos the situation is even grimmer: more than 50% of these households spend more than half their incomes for shelter. And African- Americans and Latinos are much more likely than whites to live in substandard housing.

For poor people, this statistic means real human suffering. A poor family whose adult members work for the minimum wage may spend half its income for rent—and have to live in a garage in a run-down neighborhood. After housing costs, little money is left for food, transportion, or health care. This family is one injury or illness away from life on

the streets. How common is this scenario? According to one Los Angeles Times study, more than 40,000 Los Angeles families live in garages.

Many families and individuals are forced to live on the streets, in their cars or in temporary shelters, because of the high cost of shelter. The number of homeless in Los Angeles has been conservatively estimated at more than 30,000 individuals or 10,000 families. African-Americans and Latinos are more likely than whites to be homeless. The fastest growing category is families with children.

The crisis in housing is not restricted to the very poor or the homeless. Most Los Angeles residents cannot afford to own their own homes. Less than a fifth of California residents can afford to buy a home, compared to 45% nationwide. The situation in Los Angeles is even worse. The average home price of $224,000 in Los Angeles—which compares to a national average price of $90,000—implies impossibly high down-payment and mortgage levels for even most middle-income households. By 1991, only 13.7% of all households in Los Angeles could afford to purchase a home.[4]

The government programs designed to help first-time buyers and lower income people own a home—FmHA, FHA and VA guaranteed loans—are little used, because they are only available to purchasers of homes whose mortage amount is $124,000 or less. This ceiling is only about half the median cost of a house in Los Angeles; thus, few City homes qualify for these programs. However, in South Central Los Angeles, the average home price is $127,000. In this largely minority community, government backed loans do hold out hope, if financial institutions would make a sizable volume of residential credit available.

The fact that most Angelenos, and particularly members of the City's minority population, cannot own a home means more than the failure of the American dream. It means that the traditional avenue by which lower income Americans accumulate wealth—through the equity in their homes—is closed to many Los Angeles residents.

[4] This figure is taken from a comprehensive 1991 study of housing affordability by the National Association of Homebuilders, based on 300,000 sales in 147 urban areas. Los Angeles was the second least affordable city in the US, after San Francisco.

Public agencies, especially the City government of Los Angeles itself, have invested some resources in affordable housing, but public resources are very limited. Moreover, even housing projects backed by public funds or tax credits usually require private-sector institutions to provide "gap" financing. The need for housing among residents of lower income and minority neighborhoods can be adequately met only if the institutions that traditionally lend for housing needs—commercial banks and savings and loan associations—will extend credit to residents of these communities.

2. Residential Lending Patterns in Los Angeles

Financial institutions make more than 50,000 residential loans a year in the City of Los Angeles. An analysis of computerized information on all those residential loans, for the period 1981-89, forms the basis of our findings concerning residential lending. These loans fall into four categories: loans for conventional mortgages on single-family homes; loans for government-backed mortgages on single-family homes; loans for multifamily residences; and loans for home improvements.[5] A loan for purchase, repurchase, or repair is made on about 5% of the housing stock annually.

Almost all of this residential lending is done by savings and loan associations (thrifts) and mortgage companies. Commercial banks, however, make most loans for home improvements.

In the 1981-89 period, most residential loans by dollar volume—more than 82%—have been made for the purchase of a single family residence. About 6% have been made for multifamily residences. Another 9% have been made for home repair. Only 2% of all residential loans in the City have been in the government-backed loan programs—FHA, FmHA, and VA. *The loans least frequently made in Los Angeles are those in the government-backed programs aimed at low income and first-time home buyers.* In 1989,

[5] Data must be reported for these four categories under the Home Mortgage Disclosure Act (HMDA). In data reported to HMDA, "single-family" lending encompasses lending for properties with 1 to 4 units, and "multifamily" lending encompasses lending on properties with 5 or more units.

fewer than 0.2% of residential loans were government-backed.

Moreover, very few institutions make funds available for first-time home buyers, concentrating instead on homeowners who are trading up. *Fewer than 5% of the financial institutions that make home loans and file Community Reinvestment Act (CRA) statements report making loans to first-time home buyers.*[6]

The fact that residential lending is dominated by private—not government-backed—lending by thrifts is particularly troubling in light of recent developments in the thrift industry. *Savings and loan associations which undertook nearly 15% of all residential lending during the 1981-88 period have subsequently been closed or merged.* Mergers per se do not guarantee that residential lending flows will be maintained. Most merged thrifts have been acquired by national banks, whose residential lending portfolios consist largely of home improvement loans, not home purchase loans. Hence, both institutional closures and mergers raise the spectre of a sharp drop in the availability of home purchase and multifamily loans.

3. Residential Loan Flows and Income Levels

Commercial banks, thrifts, and credit unions all make fewer residential loans as the income of a community's residents declines. Between 1981 and 1989, almost 5 loans were made in the City's highest income neighborhoods for every one (1) loan in a lower income neighborhood. There are more residential buildings in upper income than in lower income communities, but this ratio of eligible residential buildings is approximately two-to-one. *Approximately 2.50 loans are made per building in upper income communities for every one (1) loan per building in low income neighborhoods.* In dollar terms, almost $4 has been loaned for residential credit in upper income areas for every $1 loaned in lower income areas, on a per-building basis.

[6] The provisions of the CRA require that reporting institutions list all the types of loan that they provide. In 175 CRA statements made available to us for analysis in this study, less than 5% indicated that credit is extended to first-time home buyers.

Single-Family Home Loans. The disparity in lending flows between upper and lower income communities is even greater for single-family residential loans. *In the 1981-89 period, financial institutions made more than 2.5 single-family residential loans per building in upper income areas for every one such loan in lower income communities.* Loan size also increases uniformly with increases in median income.

Home Improvement Loans. More than twice as many home improvement loans are made per building in upper income communities as in lower income communities. More than $5 per building was loaned in upper income neighborhoods for each dollar loaned in lower income neighborhoods for home improvement.

4. Residential Loan Flows and Racial Concentration

The lower the percentage of minority residents in a neighborhood, the more loans are made for all residential categories. More than 2.25 loans are made per building in predominately white communities for every loan to communities with significant minority populations. Further, the lower the percentage of minority residents in a neighborhood, the larger the loans made. Nearly $6 is loaned per building in predominately white neighborhoods for every $1 per building in minority neighborhoods.

Single-Family Home Loans. The lending gap between white and minority communities is even greater when single-family home loans are isolated. *Lenders make nearly 3 single-family home purchase loans per building in white neighborhoods for each such loan per building in minority neighborhoods.* And they lend almost $8 for single-family home purchases in white areas for every dollar loaned in minority areas.

Home Improvement Loans. Home improvement loans follow the same pattern—more loans and larger loans per building—when lending for home improvement is compared in predominantly white and predominately minority areas.

In sum, *the lower a neighborhood's median income, the fewer and smaller the residential loans it receives. The higher the proportion of minority residents in a neighborhood, the*

fewer and smaller the residential loans made. These differentials are not explained by the number of residences, nor are they explained by differences in reported crime levels—i.e, by the perceived "riskiness" of an area. The evidence does suggest that mortgage bankers play a major role in residential lending throughout the City, and especially in lower income and minority areas. Data for mortgage bankers in Los Angeles suggests, further, that these bankers do not attach more onerous terms on their loans than do banks or savings and loan associations. But mortgage bankers' loan activity only partially offsets the lending pattern of banks and savings and loan associations. When *all* lenders are taken into account, residential loans fall as income falls, and residential loans fall as minority population rises.

5. Racially Disparate Lending: Lower Credit Flows in Minority Neighborhoods

Of course, it may seem possible, and even probable, that the disparity in loan flows based on racial concentration could be due simply to the fact that areas with large proportions of minority residents are also areas with low median incomes. To test this possibility, we compared the number and size of residential loans in largely white and largely minority communities with comparable median incomes.

Financial institutions' failure to lend as much or as often in minority areas, when it cannot be explained by income differentials, is termed "racially disparate lending" in this study.[7] *We found compelling evidence of widespread racially disparate lending in the City of Los Angeles.* Areas particularly affected by these racial disparities in lending flows are highlighted on the map on the next page. The number of loans made, and the amount loaned, is lower in minority neighborhoods than in white neighborhoods with comparable median incomes. This pattern is particularly common in areas with many African-American and Latino residents.

[7] This term is not synonymous with the term "redlining." A stiffer standard of proof is necessary to establish the existence of "redlining;" as noted above, this term typically refers to the racial disparities in lending that remain when all salient factors bearing directly on borrowers' creditworthiness have been taken into account.

Whether lending institutions consciously avoid minority neighborhoods or have unintentionally discriminatory practices, the results are startling and unambiguous: [redacted] *[illegible] twice as many loans were made per building in low-minority areas than in minority areas whose residents have comparable incomes. Nearly $5 [illegible] per building in low-minority communities for every $1 loaned in minority communities with comparable median incomes.*[redacted]

These findings are deeply troubling in light of the City's housing crisis. They imply that neighborhoods with many African-American and Latino residents, regardless of those residents' average incomes, are being shut out of the financial market for home purchase and home improvement loans.

C. MAJOR FINDINGS ON BANKING SERVICES

As important as residential lending is to community health, residents in lower income and minority communities need other banking services as well. To gain insight into lenders' performance in the banking service area (and also in their performance in lending for economic development and for affordable housing), we collected information from several sources—lenders' CRA statements, a survey distributed to Los Angeles financial institutions, a survey mailed to Los Angeles developers of affordable housing, and a survey and several meetings with residents and business people in the City's enterprise zones.

Financial institutions are mandated by federal law to conduct assessments of credit needs in their market areas. The evidence we reviewed suggested that many or even most financial institutions make minimal efforts to assess the extent and nature of credit needs in the lower income communities they serve. Indeed, *about one in seven lending institutions simply do not conduct their federally-mandated assessment of credit needs.*

While little is known about overall credit needs, some items of banking-service need are readily identified. Residents of all neighborhoods universally need conveniently located bank or thrift branches for their checking accounts, or at least for cashing checks. Even

that bank and thrift branches are disproportionately located in upper income and low minority areas of Los Angeles. Excluding downtown and Mid-Wilshire branches, there were [illegible] branches per 10,000 residents of lower income areas, versus 2.2 per 10,000 residents in the rest of Los Angeles. The closure of about 8% of branches in the past 3 years, much of it due to reorganization within the thrift and banking industries, does not bode well. Further upheaval in banking structure could signal even more branch closures.

While many financial institutions do offer special, low-cost accounts for low income elderly depositors, the accounts carry less congenial terms for other low income people. Small depositors, who are not elderly, are generally confronted with relatively significant monthly service fees if their bank balances are less than $500-$1,500. These fees are not always assessed on the elderly poor.

Low-income people who rely on government benefit checks are at a special disadvantage. Fewer than half of the City's financial institutions will allow general relief recipients to directly deposit their benefit checks into their accounts. Nearly 95% of financial institutions in the City refuse to allow non-depositors to cash government benefit checks in their branches. This, together with the paucity of bank branches in lower income neighborhoods, pushes government-benefits recipients into using check-cashing stores, whose rates are as high as 10% of the checks' face value. In addition, having to take the entire check in cash makes these recipients particularly vulnerable to robbery and physical abuse.

D. MAJOR FINDINGS ON ECONOMIC DEVELOPMENT

Perhaps the outstanding finding concerning economic development lending is that very little is known about lenders' activities in this area. Federal regulators do not collect comprehensive annual information about loans to businesses and individuals, and few institutions have identified credit needs for economic development.

Some patterns did emerge in the data available to us, however. Some types of credit

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are offered by only a few institutions—in particular, startup and expansion credit for businesses, and mortgage credit for first-time home buyers. The loans that are made to businesses are typically almost 100% collateralized. Further, lenders reported that their most common reasons for denying credit to businesses are, in order of importance: debt/income ratio; inadequate capitalization; insufficient collateral; and business' credit history.

These tentative findings suggest two cautious conclusions. First, improved levels of residential lending will have significant spillover benefits for entrepreneurial activity, since this will increase the collateral in homes among owner-occupants. Second, it suggests that innovative programs aimed at improved business planning, at business start-ups, and at expanding capitalization could significantly enhance economic development in needy areas. At present, only one in ten lenders have special credit programs for businesses in lower income areas; one in five have such programs for minority-owned and/or women-owned businesses. More such activities should be encouraged.

E. FINDINGS ON LENDING FOR AFFORDABLE HOUSING DEVELOPMENT

Our inquiry into the relationship between housing construction and financing focused on the experience of developers of affordable multifamily rental housing in Los Angeles. Both financial institutions and experienced low income housing developers agree that developers of affordable housing face formidable obstacles to financing their projects.

Developers overwhelmingly report that it is harder to get financing for affordable housing projects that are to be located in minority or lower income communities, than when they are planned for upper income or low-minority neighborhoods. However, the reluctance of many affluent communities to accept these projects is well known. Development of these projects thus becomes doubly difficult, squeezed between lender and community preferences.

Construction projects for affordable housing move through three stages of financing: predevelopment and site acquisition, construction, and permanent financing. Public funds play a key role in the development of affordable housing, especially housing built for very low income tenants. But private sources play an important role in "gap" financing—that is, filling the gap between total development cost and the cheap funding provided through public grants and low-interest loans.

Very few banks or savings and loans will make loans for predevelopment. Almost all affordable housing developers at this project stage have to rely on internal funds or on monies from specialized sources, such as the California Equity Fund. This means that new developers of affordable housing must start with substantial outside sources of funds. Further, land acquisition, usually the most expensive cost item in affordable housing projects, is the most difficult area for which to obtain credit from conventional lenders.

Financial institutions are generally more prepared to make construction loans. However, very few Los Angeles banks and thrifts will provide permanent financing for these projects—that is, the vast majority will not provide long-term mortgages to pay off development and construction costs. Not surprisingly, given these credit-market hurdles to affordable housing construction, we found little evidence of recent, current, or planned lender involvement in affordable housing projects. Only a handful of affordable units are being financed by the more than sixty institutions that responded to our bank survey.

F. RATING FINANCIAL INSTITUTIONS' PERFORMANCE

1. A Ranking for Residential Lending

As requested by the City, we developed a system for ranking all financial institutions on residential lending in lower income and minority communities. Institutions were grouped by the size of their residential lending portfolios—that is, larger residential lenders were compared to one another, and smaller residential lenders were compared to institutions

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